NAVAL POSTGRADUATE SCHOOL

Monterey, California

THESIS

FINANCIAL MANAGEMENT TRAINING FOR
THE UNRESTRICTED LINE OFFICER

by

Peter P. Bialobrzewski

September 1980

Thesis Advisor: R. A. Bobulinski

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career development courses are inadequate to prepare officers for their responsibilities. However, there appears to be a sufficient number of specialized financial courses to meet aggregate responsibilities. The thesis then attempts to measure 1) the current financial knowledge level of Naval officers, and 2) the impact the specialized courses and one of the guidebooks have had on improving this knowledge level utilizing two surveys conducted at the Naval Postgraduate School.

In conclusion, the thesis makes several recommendations for increasing the availability of financial training to the line officer by incorporating it into normal career development courses. It also presents a guidebook developed by the author which can be used in formal training programs or as an ancillary training aid/reference publication for those individuals who have not or will not have an opportunity to receive formal financial management training.

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Financial Management Training for
the Unrestricted Line Officer

by

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ABSTRACT

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I. INTRODUCTION

A. GENERAL

The Golden Rule:

He who has the gold rules

In that truism lies the balance of the fate of many nations. The power of the purse has long been recognized as sovereign. It is a theme woven into the fabric of history. During the Nixon Administration there was antagonism between the President and Congress over the spending of public funds. When Congress passed the Federal Water Pollution Control Act over a presidential veto, the administration impounded half of the eighteen billion dollars which had been allotted for three fiscal years. This was an obvious attempt by the President to enforce his preference and budget priorities over those of the Congress. The Congress reacted by passing impoundment control legislation to limit the President's ability to alter its future decisions.[1]

This same struggle is evident in the funding of programs for the Department of Defense (DOD). The conflict between the President and Congress over the procurement of a new aircraft carrier is a recent example. These fiduciary iterations culuminate in what will be the final budget for the DOD and its component services.

Appropriations to the Department of the Navy (DON) are eventually passed down to Commanding Officers to support their operations. To

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[1] Dennis S. Ippolito, The Budget and National Politics, (San Francisco: W.H. Freeman and Company, 1978), p. 138-139.

ensure that the intent of the appropriations as determined by Congress are not violated, the allocations of funds are subject to strict controls as specified under Public Law and Naval Regulations as well as guidance from other echelons of command. These impact not only on the Commanding Officer but also on every other individual, both military and civilian, who utilizes public funds in the performance of his/her duties.

The President's budget request asked Congress to approve expenditures of over one hundred thirty-five billion dollars for the operation of the DOD in fiscal year 1980; over forty-four billion would be for the DON alone. The portion of this sum which will be received by a Commanding Officer depends on the size and complexity of his command. A large Naval Air Station such as the one at Alameda, California manages approximately sixty-five million dollars in resources annually. For comparison, the Commanding Officer of a Pacific Fleet cruiser receives slightly more than one million dollars each year and a destroyer or oiler about four hundred thousand dollars.[2] The range runs from billions down to thousands but all officers carry a degree of fiscal responsibility. Therein lies the problems.

B. PROBLEMS

In light of the size and the public trust inherent in controlling the funds, does the line officer have sufficient opportunity to acquire the financial management knowledge and skills necessary to perform these

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[2]Phonecon with the SURFPAC Comptroller on 11 March 1980.

responsibilities? Does the line officer have the time in light of a traditionally operational career path? Are there enough training programs and guidebooks available in the area of financial management in the Navy to assist them? These are the questions which this thesis attempts to answer.

C. OBJECTIVES

Navy Regulations singularly place the responsibility for sound management on the Commanding Officer even though he may delegate some authority to subordinates such as Department Heads. Financial responsibility then parallels command responsibility and the largest segment of the Naval community which is groomed toward accepting this responsibility is the Unrestricted Line Officer.

The intent of the thesis is to compare the aggregate financial management responsibilities at the three most common levels of operational management responsibility (Division Officer, Department Head and Commanding Officer/Executive Officer) with the content and availability of training programs and guidebooks. More specifically, to address the question of whether or not there currently exists an adequate amount of financial management training and information which can be made available to an individual officer prior to occupying one of these positions. Is the preparation of the officer commensurate with the task assignment?

D. METHODOLOGY OF RESEARCH

In preparing this thesis, the officer career path was divided into four training opportunity segments roughly corresponding to the three levels of management responsibility discussed in the previous section. They are:

1. Entry level or Precommissioning - This is the first level of training available to the prospective Naval officer. In some instances, it is the only training he may undergo prior to assuming the responsibilities of a Division Officer or Department Head. This is particularly true in the case of Restricted Line, Limited Duty and Warrant Officers.

2. Junior Officer level - Defined as 0-1 through 0-3.

3. Mid-level - Defined as 0-4 and junior 0-5.

4. Senior Officer level - Defined as senior 0-5 and above.

The various financial management responsibilities for commanding officers/executive officers, department heads, and division officers, as established in existing documentation, were then compiled and the training programs were examined to determine if they were directed toward assisting the officer in meeting those responsibilities and if they were available to the opportunity segments where that knowledge would be needed.

The first step of the actual curriculum review was a telephone interview with cognizant individuals at each school or institution, e.g., the Associate Dean for Academics at the U.S. Naval Academy and the Executive Assistant to the Academic Dean of the Naval War College. The examination was considered complete if the interview revealed that no financially-

related topics were covered in the curriculum. If any were, or if there was some doubt as to whether or not something loosely addressed financial management, the catalogues, Lesson Topic Guides or course syllabi were requested and subsequently reviewed by the author. In some cases it was noted that there were slight variations between the same course taught at different locations. These are pointed out in the text. The Naval Reserve Officer Training Corps (NROTC) curriculum is taught at too many locations to make it practical to check them all. The standardized content guidance from the Chief of Naval Education and Training was utilized as the base for analysis in this case. The author then compared the available training to the financial responsibility being assigned.

E. THESIS ORGANIZATION

Chapter I provides some brief insight into the magnitude of the financial management responsibility in the DON. Chapter II examines these management responsibilities in greater depth. An examination of the current training programs and guidebooks is presented in Chapter III. Chapter IV then compares the responsibilities and available training and presents conclusions and recommendations for future training programs and guidebooks. Appendix A provides a recommended financial management guidebook for all officer personnel.

II. BACKGROUND OF LINE OFFICER FINANCIAL MANAGEMENT RESPONSIBILITIES

A. GENERAL

To examine all the possible positions which the line officer might occupy and the financial management responsibilities inherent therein would be well beyond the capabilities of a single analyst to accomplish as a thesis project. The author feels that the most valid approach dictates the need for a task analysis of each position consistent with an Industrial Psychology approach. This thesis will tackle the first step of that task analysis for the three most prevalent line financial management positions - Division Officer, Department Head, and Commanding Officer/Executive Officer. This first step consists of an examination of existing documentation on job responsibilities of each of the three levels as specified in Public Law and Navy Regulations.

As a check of the literature examination vis-a-vis reality, this chapter also presents a summary of selected research findings of Robert J. Shade, a recent attendee of the Naval Postgraduate School. His thesis is an investigation of line officer budget formulation and execution practices in a shipboard environment. Since a large portion of line officer billets are aboard ships, his research is very germane to the examination of the total line officer responsibilities attempted herein.

B. PUBLIC LAW

The availability of funds at any level within the Department of the Navy stems from Authorization and Appropriation legislation passed by Congress. Coexistent with the authority to spend public funds are limitations whose roots are in the word of the law. These limitations impact on every individual, officer and enlisted, military and civilian, who come into contact with public monies. The two major constraints imposed on the obligation and expenditure of appropriated funds are found in Section 3678 of the Revised Statutes, 31 U.S. Code 628 and Section 3679 Revised Statutes, 31 U.S. Code 665. Basically, Section 3678 prohibits an expenditure of funds on any item other than that for which it was originally intended to be spent by Congress. Section 3679 prohibits any act which would cause an obligation or expenditure in excess of the apportionment made. A more detailed and accurate discussion of the ramifications of these laws is given in Appendix A. Without repeating that discussion here, it is sufficient to say these two laws and the cascade of other limitations emanating from them place hard restrictions on all financial managers. For example, local commanders must obligate sufficient funds to meet the floor (minimum spending amount) established in the Operations and Maintenance (O&M) appropriations for maintenance of real property at their respective commands.

While the Unrestricted Line Officer's implied challenge to master all facets of seamanship or airmanship is a prime factor driving his professional growth and the content of service schools, it should not be

the only factor. With the establishment of the Resource Management System (RMS) in the DON, financial responsibilities in the operations and maintenance area were made to parallel responsibilities for command. It is therefore imperative that the line officer have a good grasp of the legal aspects of public fund management.

C. NAVY REGULATIONS

The next major delineation of financial responsibilities can be found in Navy Regulations. The next three sections examine those regulations as they pertain to the three levels of responsibility identified in the introduction, Commanding Officer/Executive Officer, Department Head and Division Officer.

1. Commanding Officer/Executive Officer

a. Basic Functions

As set forth in U.S. Navy Regulations, Commanding Officers are charged with the absolute responsibility for the safety, well-being, and efficiency of their commands, except when and to the extent they may be relieved therefrom by competent authority. The executive officer shall be primarily responsible, under the commanding officer, for the organization, performance of duty, and good order and discipline of the entire command.

b. Financial Functions

Commanding Officers are responsible for the efficiency of their command which includes the use of financial resources. Implied in this responsibility is the requirement to check and compare budgeted

funds with actual costs and performance. In amplification of this the executive officer is specifically tasked with:

1) Prosecuting a program of economy and conservation, and promoting cost consciousness within the command.

2) Ensuring that adequate supplies and services are made available to the executive's assistants within the allotment of maintenance and operating funds.

Commanding officers may give subordinates a degree of financial responsibility paralleling their other responsibilities by the administrative procedure of issuing an Operating Target (OPTAR) which is usually a cumulative dollar figure above which the receiving officer may not spend. The OPTARS are not to be construed as legal subdivisions of funds; therefore, the ultimate legal and accounting responsibility remains with the commanding officer.

2. Department Head

a. Basic Function

Navy Regulations describe the department head as the representative of the commanding officer in all matters that pertain to the department. Department heads will conform to the policies and comply with the orders of the commanding officer and be responsible for the effectiveness of their departments.

b. Financial Functions

Individuals occupying this position are specifically tasked by regulations with:

1) Controlling the expenditure of funds allotted, and operating the department within the limit of such funds. This limit could be set through an OPTAR.

2) Ensuring economy in the use of public money and stores.

3) Formulating and submitting budgetary requirements for the maintenance and operation of his/her department, and approving expenditures from the funds allocated by the commanding officer.

3. Division Officer

a. Basic Functions

A division officer is an officer regularly assigned by the commanding officer to command a division of the unit's organization. They are responsible, under the head of their departments, for the proper performance of the duties assigned to their division and the conduct of their subordinates, in accordance with regulations and the orders of the commanding officer and other superiors.

b. Financial Functions

Navy Regulations do not contain any specific financial responsibilities for the division officer. However, commanding officers or department heads may delegate some responsibility to these individuals as previously noted. The most common appears to be the maintenance of a basic OPTAR Log which is a running record of the funds obligated by the division.

D. SURVEY RESULTS

Shade's research confirmed that the majority of commanding officers surveyed allow department heads to participate in the formulation of the ship's OPTAR budget, and particularly in the development of their own segments of the budget. However, many commanding officers have missed the opportunity to use the budget formulation process as a leadership and subordinate development tool because they have not integrated budget objectives with each department head's overall management objectives.[3] While department heads participate to a large extent in the formulation of their own budgets, and exercise control over the use of the OPTAR assigned to their departments, most limit the amount of financial authority granted to their division officers.[4]

Shade's research also revealed that the budget execution process receives considerably less attention aboard ship than does the budget formulation process. Of those surveyed, few commanding officers conducted an organized review of budget execution at regular intervals, and most had not established a reporting system which allowed them to assess whether or not department heads were using funds in accordance with the priorities of the budget. This lack of follow-up during the budget execution phase clearly indicates that most commanding officers have not grasped the concept of the total management system for their ship.[5] He concludes that the

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[3] Robert J. Shade, "Shipboard OPTAR Management: An Investigation of Line Officer Budget Formulation and Execution Practices," unpublished master's thesis at the Naval Postgraduate School, (June 1979), p. 101.

[4] Ibid, p. 103.

[5] Ibid, p. 104.

financial management decision points faced by a department head are roughly the same as those faced by a commanding officer, and the alternatives for each are similar.[6]

E. SUMMARY AND CONCLUSIONS

While the provisions of public law apply to all three management levels, the onus for ensuring compliance rests with the commanding officer. Likewise, while regulations allow the commanding officer to delegate some financial responsibility to subordinates, the ultimate legal and accounting responsibility remains with him.

The commanding officer, executive officer and department head are specifically tasked in Navy Regulations with ensuring economy in the use of public funds. Regulations allow commanding officers the option of giving subordinates a degree of financial responsibility paralleling their other responsibilities. Survey results tend to indicate that this responsibility is not often passed down below the department head level in shipboard environments. Likewise, Navy Regulations do not task division officers with any financial management responsibilities.

The importance of these financial responsibilities is driven home when one reconsiders the size of the funds handled; sixty-five million dollars annually for a large Naval Air Station and over four hundred thousand dollars for a typical destroyer. The question has become whether or not funds have been invested in training programs to allow an officer to effectively carry out the public trust inherent in carrying out their duties.

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[6] Ibid, p. 79.

III. CURRENT TRAINING OPPORTUNITIES AND UTILIZATION

A. GENERAL

The next step required in developing this data is an examination of current, formal training programs including major correspondence courses and guidebooks. The following paragraphs examine the available training programs, both career development and specific financial courses, which line officers may attend during the course of their careers. They are organized according to the four training opportunity segments described in the Introduction. Two tables are provided at the end of this chapter which summarize the findings from a different perspective. Table III-1 breaks out the normal Unrestricted Line Officer career development courses as either Pre- or Postcommissioning and identifies those which contain some aspect of financial management training. Table III-2 displays other training opportunities which are not part of the normal career development path but are very germane to the acquisition of financial knowledge.

B. ENTRY LEVEL TRAINING

The following precommissioning training programs were examined:

1. Officer Candidate School (OCS) - No training on the management of public funds. A distinction must be drawn between financial management and basic supply functions. Candidates are taught about material requests (NAVSUP Form 1250) and they receive some basic instruction in filling out the requests. However, they are not taught Operating Target (OPTAR) Log maintenance. In other words, although candidates know how to fill out a

request they have no idea of whether or not there is enough money to cover the cost. This clearly does not meet even the most basic tenets of financial management.

2. Aviation Officer Candidate School (AOCS) - No financial training is offered as part of the regular curriculum. Occasionally there is a guest speaker from the Office of Legislative Affairs who gives a brief overview of the Planning, Programming and Budgeting System (PPBS) to the entire student body.

3. NROTC - No financial training is offered (Please note the methodology of research presented in Chapter I).

4. U.S. Naval Academy (USNA) - Offers a Bachelor of Science degree with a major in Resources Management. Required courses include Accounting, Financial Management and Material Management. Cost Accounting is offered as an elective. Approximately 8% to 10% of each graduating class receives a degree in this area. It is important to note that the aforementioned courses are <u>not available</u> to students pursuing degrees in other disciplines.

5. Officer Indoctrination for Limited Duty and Warrant Officers - No financial training is regularly scheduled. They do attend the aperiodic lecture given by a representative from the Office of Legislative Affairs along with the AOCS students.

C. JUNIOR OFFICER TRAINING

1. Surface Warfare Officer School (SWOS) Basic - No financial training is offered.

2. Naval Postgraduate School (NPS) - Offers a curriculum leading to a Master of Science degree in Management (Financial Management). Students pursuing other management degree programs may take courses in financial management depending upon their program requirements. Correspondence courses are discussed later.

3. Leadership, Management Education and Training (LMET) - No financial management aspects are addressed.

4. SWOS Department Head - Includes four hours on basic OPTAR management.

5. Flight Training Programs - No financial training is offered.

6. Naval Submarine School (Basic) - Briefly addresses the purpose of an OPTAR. Specifics and legal implications are not covered.

7. Naval Submarine School (Advanced) - Same as the Basic course.

8. Correspondence and extension courses

a. Available from NPS:

1) MN 2150 Financial Accounting - An undergraduate level course, 4 credit hours. Study of the basic postulates and principles of accounting. Specific topics include the accounting cycle, asset valuation, equities and capital structure, financial statements analysis, and elementary cost accounting.

2) MN 3161 Managerial Accounting - A graduate level course, 4 credit hours. Survey of cost accounting systems, including overhead costing, job order and process cost systems, variable and absorption costing, and standard costs. Emphasis is on application of accounting

data to planning, control and decision making. Topics covered include flexible budgets, variance analysis, cost-volume-profit analysis, and incremental profit analysis. Capital budgeting is examined extensively.

b. Naval Education and Training Command (NAVEDTRA) courses:

1) NAVEDTRA 10984-B2, Appropriation and Cost Accounting - Presents an overview of types of accounting procedures consistent with guidelines promulgated by the Comptroller of the Navy; provides for identification of appropriation, cost, and property accounting procedures applicable to various financial transactions in the Navy.

2) NAVEDTRA 10976-C, Disbursing - Provides an introduction to the functions and organization of disbursing offices and the regulations and instructions which govern procurement, disbursement, and custody of public funds and related accounting functions; civilian payrolls; preparation and payment of public vouchers; records, reports and returns; regional consolidation procedures; and United States Savings Bonds programs.

3) NAVEDTRA 10732-D, Financial Management in the Navy - Designed to assist the naval officer in carrying out responsibilities for financial management. Discusses major legislation and regulations governing performance of the financial management functions. (This course is out of date.)

9. Naval Comptroller (NAVCOMPT) sponsored courses: (Given at twelve locations)

a. Introduction to Navy Accounting and Budgeting - Includes shore activity accounting and budgeting, funding documents, ledgers,

worksheets, postings, accounts receivable, accounts payable, reconciliation, accounting controls, document validation, reimbursables, and reports.

b. Principles of Navy Budgeting - Includes NAVCOMPT forms, budget calls, development of requirements, departmental feeders, reimbursables, price estimation techniques, allocation procedures, and monitoring of results.

c. Introduction to Navy Industrial Funds (NIF) - Includes cost accounting, NIF concept cycle, types of cost, billing cycle, financial and operating statements, labor and material cost, and job control and structure.

d. Introduction to Navy Audit and Internal Review - Includes audit approach and concepts, financial controls, statistical sampling, trouble shooting, economic analysis, system analysis techniques and internal review.

10. Program Management - This six month course is taught at the Defense Systems Management College. Its purpose is to prepare individuals to assume the unique responsibilities of a Program Manager. The course focuses on contracts, contractor financial management, cost management and program analysis. While not oriented toward a broad application of acquired skills in finance, it is mentioned here for the sake of completeness.

D. MID-LEVEL TRAINING

1. Naval War College - There is no specific program available; however, the concept of the PPBS is covered in most of the curriculums and electives

are offered in such areas as Financial Management in the Navy, Defense Economics and Public Finance.

2. Industrial College of the Armed Forces (ICAF) - Like the Naval War College, there is no Master's Degree conferred in Financial Management. Only elective courses are available. ICAF does not offer correspondence courses.

3. Perspective Commanding Officer/Executive Officer (PCO/XO) (Afloat) Course - Includes four hours on basic OPTAR management (Newport only).

4. NAVCOMPT sponsored courses:

a. Practical Comptrollership - Provides hands-on, minimum theory with maximum application on all facets of comptrollership including; accounting, budgeting, planning, internal review, and management evaluations and performance. Although the literature indicates this course was intended for mid-level personnel, junior officers also attend.

b. Professional NIF Managers - Provides a broad overview of NIF including; establishment of funds, cycle of operations, billing cycle, types of cost, fund control, and the use of NIF financial performance reports.

5. Professional Military Comptroller Course, Maxwell Air Force Base - Includes financial control systems, U.S. economic system, environment of the comptroller, the computer as a management tool, analytical management tools and techniques, accounting theory and principles, and the comptroller's role in the operation of management systems.

6. Industry Financial Management Course, Defense Systems Management College - Provides a working knowledge of private industry, contracts, and required contractor reporting; places emphasis on acquainting the individual with defense contracts through case studies. It is oriented primarily toward procurement and is mentioned here for the sake of completeness.

7. NAVCOMPT Financial Management Guidebook for Commanding Officers - Provides an introduction and foundation knowledge in financial management responsibilities, concepts, and procedures.

E. SENIOR OFFICER TRAINING

1. Prospective Commanding Officer Shore Station Management Training Program - One day of this three week course is devoted to an overview of financial management in the Navy. Topics covered include an introduction to financial management; legal aspects of funds management; the Naval Audit Service; the Planning, Programming, and Budgeting System; command level budgeting; introduction to accounting systems; financial management training programs; and workshops for assessing accounting systems.

2. All the other opportunities for senior officers have already been touched upon since the training programs were listed under the lowest grade eligible to attend. For the sake of completeness it should be mentioned that there are other opportunities to matriculate in programs providing financial education in the civilian community at any grade. The author was not able to obtain a firm figure; however, it is believed to be a relatively small percentage in comparison with the total output of all the other sources.

F. SUMMARY OF TRAINING OPPORTUNITIES

The analysis approach of looking at aggregates of the training programs proved to be quite sufficient in most cases since the majority of programs provided either no financial training or were totally oriented toward that objective. Fifty percent of the career development courses examined included no financial management training whatsoever. Only the U.S. Naval Academy and the Naval Postgraduate School offered a comprehensive curriculum in financial management. It must be noted that these two institutions graduate a very small number of financial managers each year in relation to the total number of positions involving such responsibility which must be filled. Thus it appears that for the line officer to acquire any significant degree of financial expertise he must attend specialized courses in addition to the normal career development courses.

The aggregate look at the specialized training courses tends to indicate that there is a sufficient diversity within the available courses to fill the void in the normal career courses and meet the basic knowledge and skill factors necessary to carry out the responsibilities identified in Chapter II. An evaluation of the currentness of these courses, however, is beyond the scope of this thesis and should certainly be the subject of future research.

Lastly, one bound handbook was found which touched upon all of the responsibilities identified in Chapter II. Unfortunately, it is specifically addressed to the commanding officer and does not provide enough guidance and direction in the areas of budget preparation and execution.

G. UTILIZATION

These findings intuitively lead to a desire for some quantitative measure of the true utilization of the financial courses and the guidebook. Because the research functions of this thesis were time constrained, the four NAVCOMPT courses open to junior officers were chosen as a sample to examine. They are all short courses, one week in total duration, and offered at twelve locations. NAVCOMPT did not have any specific figures on the utilization of the four courses, but they estimate that nine hundred individuals, military and civil service, attend each course each year.[7]

Table III-3 displays the results of a financial management questionnaire given to the attendees of the Practical Comptrollership Course, another NAVCOMPT sponsored course, which is given periodically at the Naval Postgraduate School in Monterey, California. This course is intended for mid-level military and civilian personnel. The findings indicate that 65.3% of the respondents (76% of the military and 54% of the civilians) had never taken any other formal financial management course prior to this one. Sixty percent of the military officers indicated they had been in a financial management position for less than one year. On the other hand, 79.2% of the civilians had been in such a position for five or more years. While not conclusive, the sample tends to indicate that the actual utilization is low, particularly for civilian employees. However, it must be pointed out that these four courses have only been in existence for two years. Future surveys of this type may therefore yield greater utilization factors.

[7]Phonecon with NAFC-53 on 3 March 1980.

The remainder of the questionnaire focuses on the Financial Management Guidebook for Commanding Officers. The increased importance of this type of publication, as earlier concluded, makes further investigation into its contents and availability warranted.

The idea behind the guidebook was to provide "an introduction and foundation knowledge in financial management responsibilities, concepts, and procedures."[8] Toward this end, it appears to be an excellent attempt to provide some insight for those individuals who did not have the benefit of formal financial training. Almost ninety-four percent of those who responded indicated a publication like the guidebook was useful. Unfortunately, 73.5% had never seen the book before attending the Practical Comptrollership course. Slightly more than sixty-seven percent felt that the material presented in the guidebook should be incorporated in training programs for all officers not just commanding officers. Almost 84% believed that the publication was at the proper level, that is, neither too technical nor too general. To put this response in the proper perspective, it should be noted that the sample included not only individuals just beginning to acquire financial knowledge, but also a large portion of civilians with over five years experience. Finally, 77.6% of the sample believed the publication was of the proper length for a training guide.

Table III-4 displays the results of a second and more generalized questionnaire which was given to Naval Officers pursuing technical degrees at the Naval Postgraduate School School (NPS). Technical students were

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[8] Financial Management Guidebook for Commanding Officers, (NAVSO P-3582, 1977), p. i.

chosen so that the survey results would better reflect the financial knowledge of the average Naval Officer and not the financial knowledge which management students had acquired as a result of being at NPS.

While 75% of the respondents had participated in the budgeting process (most frequently at the division officer afloat level), 86.5% had received no formal training to assist them in performing this task. Of the remaining 13.5% (seven individuals) who had some training, three acquired their financial expertise as a result of civilian undergraduate degrees, two had related degrees from the U.S. Naval Academy, one had taken a NAVEDTRA correspondence course, and the last one had taken an elective financial course while at NPS. 94.2% had never seen the Financial Management Guidebook for Commanding Officers.

94.2% knew what an OPTAR was. This was not surprising since large percentages of the sample had participated in afloat budgeting. However, significantly large numbers did not understand the flow of funds, the various types of funds, the legal aspects of fund management, or the purpose of internal review and auditing. All of the respondents were interested in having a handbook which would explain the aforementioned concepts. Many of the returned questionnaires had comments written in next to this question indicating they sure could have used such a publication when they first had to handle funds or shifted from afloat to ashore financial environments.

UNRESTRICTED LINE OFFICER CAREER DEVELOPMENT COURSES

	Financial Training: YES	NO
Precommissioning:		
Officer Candidate School		X
Aviation Officer Candidate School		X
Naval Reserve Officer Training Corps		X
U.S. Naval Academy	X*	
Officer Indoctrination for Limited Duty Officers and Warrant Officers		X
Postcommissioning:		
Surface Warfare Officer School (Basic)		X
Surface Warfare Officer School (Department Head)	X**	
Naval Postgraduate School	X	
Leadership, Management Education and Training		X
Flight Training Programs		X
Naval Submarine School (Basic)	X**	
Naval Submarine School (Advanced)	X**	
Prospective Commanding Officer/Executive Officer Course (Afloat)	X**	
Prospective Commanding Officer Shore Station Management Training Program	X***	

Notes: *8%-10% of each graduating class
**Four hours or less of basic OPTAR management only, not part of the curriculum at every location.
***One day overview of financial management, accounting systems and legal aspects.

Table III-1

AVAILABILITY OF FINANCIAL MANAGEMENT TRAINING OPPORTUNITIES

	Precommissioning	Junior Officer	Mid-Level	Senior Officer
Naval Postgraduate School Extension Courses:				
MN 2150 Financial Accounting		X	X	X
MN 3161 Managerial Accounting		X	X	X
Naval Education and Training Command Courses:				
NAVEDTRA 10984-B2 Appropriation and Cost Accounting		X	X	X
NAVEDTRA 10976-C Disbursing		X	X	X
NAVEDTRA 10732-D Financial Management in the Navy		X	X	X
Naval Comptroller Sponsored Courses:				
Introduction to Navy Accounting and Budgeting		X		
Principles of Navy Budgeting		X		
Introduction to Navy Industrial Funds (NIF)		X		
Introduction to Navy Audit and Internal Review		X		
Practical Comptrollership		X	X	X
Professional NIF Managers			X	X
Naval Postgraduate School		X	X	
Naval War College			X	X
Industrial College of the Armed Forces			X	X
Professional Military Comptroller Course			X	X
Program Management		X	X	X
Industry Financial Management Course			X	X

Table III-2

FINANCIAL MANAGEMENT QUESTIONNAIRE RESULTS I

	Naval Officer (n=25)	Civilian Personnel (n=24)	Total (n=49)	% of Total
1. How many years have you occupied a position which included financial management responsibilities?				
Less than one	15	2	17	34.7
Two	1	3	4	8.2
Three	3	0	3	6.0
Four	2	0	2	4.1
Five	0	2	2	4.1
Six or more	4	17	21	42.9
2. Have you ever seen the NAVCOMPT publication <u>Financial Management Guidebook for Commanding Officers</u> before you attended the Practical Comptrollership Course?				
Yes	6	5	11	22.4
No	18	18	36	73.5
No answer	1	1	2	4.1
3. Have you ever taken any other formal courses, including correspondence courses, which included financial management training?				
Yes	6	11	17	34.7
No	19	13	32	65.3
4. The <u>Financial Management Guidebook for Commanding Officers</u> was:				
Too long	5	1	6	12.2
The right length	17	21	38	77.6
Too short	1	2	3	6.1
No opinion	2	0	2	4.1

Table III-3

	Naval Officer (n=25)	Civilian Personnel (n=24)	Total (n=49)	% of Total
5. The Guidebook was:				
Too technical	0	1	1	2.0
About right	20	21	41	83.7
Too general	3	2	5	10.2
No opinion	2	0	2	4.1
6. I believe a publication like the Guidebook is:				
Useful	23	23	46	93.9
Not useful	0	1	1	2.0
No opinion	2	0	2	4.1
7. The material presented in the Guidebook should be incorporated in training programs for:				
All officers	14	19	33	67.3
Mid-level officers	7	5	12	24.5
Commanding Officers only	2	0	2	4.1
No opinion	2	0	2	4.1

FINANCIAL MANAGEMENT QUESTIONNAIRE RESULTS II

	Designator *					
	11XX (n=24)	13XX (n=13)	1460 (n=8)	1610 (n=7)	Total (n=52)	% of Total
1. How many years have you occupied a position in the Navy which included some financial management responsibilities, such as handling division or department funds?						
Less than one	1	9	1	1	12	23.1
Two	2	1	0	1	4	7.7
Three	5	1	2	0	8	15.4
Four	3	0	1	2	6	11.5
Five	5	1	2	0	8	15.4
Six or more	8	1	2	3	14	26.9
2. Have you ever participated in the development of a division, department or command budget?						
Yes	21	4	8	6	39	75
No	3	9	0	1	13	25
What were the circumstances?						
AFLOAT						
Division	18	3	7	3	31	79.5**
Department	16	3	6	1	26	66.7**
Command	5	0	1	1	7	17.9**
ASHORE						
Division	3	1	0	3	7	17.9**
Department	5	3	2	4	14	35.9**
Command	2	2	1	2	7	17.9**
3. Have you attended any formal courses or taken any correspondence courses which included financial training?						
Yes	3	1	1	2	7	13.5
No	21	12	7	5	45	86.5

Table III-4

	11XX (n=24)	13XX (n=13)	1460 (n=8)	1610 (n=7)	Total (n=52)	% of Total
4. Have you ever seen the NAVSO publication <u>Financial Management Guidebook for Commanding Officers</u>?						
Yes	1	1	1	0	3	5.8
No	23	12	7	7	49	94.2
5. Do you feel you understand the Planning, Programming, and Budgeting System and how funds flow to your ship or command?						
Yes	6	3	5	3	17	32.7
No	18	10	3	4	35	67.3
6. Do you understand the statutory limitations which govern all personnel who handle public funds?						
Yes	2	2	4	1	9	17.3
No	22	11	4	6	43	82.7
7a. Do you know what an OPTAR is?						
Yes	21	13	8	7	49	94.2
No	3	0	0	0	3	5.8
b. Do you know what an EOB is?						
Yes	7	1	7	2	17	32.7
No	17	12	1	5	35	67.3
8. Do you know the difference between Industrial Funds, Stock Funds and Appropriated Funds?						
Yes	4	2	4	0	10	19.2
No	20	11	4	7	42	80.8
9. Do you understand the purpose of Internal Review and Auditing in budget execution?						
Yes	2	2	6	4	14	26.9
No	22	11	2	3	38	73.1

	11XX (n=24)	13XX (n=13)	1460 (n=8)	1610 (n=7)	Total n=52)	% of Total
10. Do you know what Reimbursable Orders are and their effect on your budget?						
Yes	3	2	3	1	9	17.3
No	21	11	5	6	43	82.7
11. Would you be interested in having a short, plain-language handbook which explains the concepts mentioned in the previous questions and relates them to the duties of division officers, department heads and commanding officers/executive officers?						
Yes	24	13	8	7	52	100
No	0	0	0	0	0	0

*11XX - Line officer qualified in a warfare area such as surface or submarine warfare.
13XX - Line officer qualified as a pilot or Naval Flight Officer.
1460 - Restricted line officer - limited to shipboard engineering duties.
1610 - Restricted line officer - limited to cryptologic duties.

**Computed as a percentage of those who responded Yes to question 2.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The following conclusions were reached as a result of the information and analysis presented in the preceding chapters.

1. No precommissioning training program offers any significant degree of public finance education to the prospective line officer aside from a small percentage of graduates of the U.S. Naval Academy (this obviously does not include individuals who are or have pursued finance related degrees in private colleges or universities).

2. Only a brief overview of basic OPTAR management is presented in four of the eight post-commissioning career development courses. In the author's opinion, this is not sufficient training to acquire the necessary financial expertise in light of the aggregate size of the funds handled and the degree of the public trust. Shade's research led him to the same conclusion.[9]

3. In general, the normal career development courses (aside from the NPS) are inadequate in preparing the Unrestricted Line Officer for the execution of his financial responsibilities.

4. There are a sufficient number and mixture of specific financial management training courses available to supplement career development courses. However, the utilization of these courses appears to be low.

[9] Shade, p. 79-87.

5. The NAVCOMPT Financial Management Guidebook for Commanding Officers is the only guidebook which addresses the full spectrum of financial knowledge required by the line officer. In light of the lack of significant financial management training in the normal career development courses, such a book assumes greater importance in educating the line officer. Unfortunately, exposure to this guidebook has been very low.

6. The findings of this research also have impact upon segments of the Restricted Line and Limited Duty Officer communities as well. These individuals occupy positions of financial responsibility and their opportunities for financial training are more nearly like those available to the Unrestricted Line Officer than the Staff Corps Officer. For example, sizeable portions of the Intelligence and Cryptologic Officer communities have been accepted into their respective speciality areas after demonstrating outstanding performance in the Unrestricted Line; their financial expertise (if any) being a function of earlier line opportunities. Those who are commissioned with the designator go through the same precommissioning training such as Officer Candidate School and are then transferred to either a technical school or directly to their first duty station. On the other hand, staff corps officers, e.g., Supply Officers, have some financial training programmed into the front end of their career pipeline.

7. A financial management guidebook was perceived as being useful by both individuals attempting to acquire that knowledge for the first time and individuals with several years experience in that area.

8. Those surveyed felt that the material contained in the NAVCOMPT Guidebook should be included in training programs for all officers. Shade's survey findings also conclude that broad concepts such as the sources of funds should be part of a line officer's knowledge even down to a division officer level.[10] The author's survey results indicate that this type of knowledge is in fact lacking.

B. RECOMMENDATIONS

1. Increased emphasis should be placed on expanding the financial management training portions of career development courses instead of having the vast majority of such training placed in special courses which the typical line officer may not have the opportunity to attend.

2. All line officers should have a basic knowledge of the types and sources of appropriated funds. Additional credence is given to this recommendation by virtue of the fact it is also part of the Surface Warfare Officer Personal Qualification Standards (PQS). But, it is not taught in normal career development courses.

3. The legal aspects of public funds management should be incorporated into all training programs.

4. The financial training incorporated into the career development courses should address budget formulation and execution procedures since these areas appear to be less than adequately performed in the fleet.[11]

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[10] Ibid, p. 91.
[11] Ibid, p. 93.

5. The NAVCOMPT Financial Management Guidebook for Commanding Officers should be rewritten to include more practical information on budget formulation and execution. At the same time, the overall perspective should be expanded to make the book equally useful for the newly-commissioned division officer as well as the commanding officer.

6. A guidebook, like one described in the preceding recommendation, should be utilized in formal training programs and then given to the officer to serve as a quick reference publication in the future.

C. REVISION OF THE GUIDEBOOK

Appendix A to this thesis is an attempt at rewriting the NAVCOMPT Guidebook to meet the recommended criteria while still retaining the good points as noted in the questionnaire results, i.e., keeping it approximately the same length and presenting only a minimum of technical level information. In addition to the NAVCOMPT Guidebook, instructional materials from the Practical Comptrollership course were the main references used in developing the revision. The course provides minimum theory with maximum application in such areas as accounting, budgeting, planning, internal review and management evaluation and performance. This material is therefore ideally suited to the development of a practical handbook.

APPENDIX A

FINANCIAL MANAGEMENT GUIDEBOOK FOR LINE MANAGERS

PREFACE

This publication is a sample training guide and reference publication to assist line officers in acquiring a basic foundation of knowledge which will help them in understanding the responsibilities, concepts, procedures, and terminology of financial management in the Department of the Navy. Financial management responsibility parallels command responsibility. It is as integral a part of the line officer's many duties as is an operational decision. Moreover, the financial aspects often drive the feasibility of many of those decisions that are made. This is no small task either. A large Naval Air Station manages approximately sixty-five million dollars in resources annually, a cruiser slightly more than one million and a destroyer or oiler about four hundred thousand.

It is intended that this publication provide the basic knowledge in financial management necessary to understand the sources and uses of the public funds which are entrusted to the line officer for his management and the inherent legal responsibilities. Special emphasis is given to the formulation and execution of command budgets, two of the most important but usually the least understood or least successfully accomplished aspects of financial management. And, finally, there is a glossary to assist the line officer in comprehending the myriad of technical terminology.

CHAPTER I

DEFENSE BUDGETING AND THE SOURCES OF FUNDS

INTRODUCTION

The funds approved for use by the Department of the Navy (DON) during any fiscal year are the end results of a long chain of sequential, complex and integrated events. The process by which resource requirements are determined, documented and costed in the Department of Defense is known as the Planning, Programming and Budgeting System (PPBS).

In fiscal year 1979, Congress requested the DON to submit a Zero Based Budget (ZBB) in addition to the normal budget submission which is a result of the PPBS cycle (both of these budgeting systems are described later). ZBB has now taken hold in the Department of Defense (DOD) and, at the direction of the Secretary of Defense, is designed to complement not replace PPBS.

Through these processes, requirements for the manpower, money and materials needed to carry out various programs within the DOD are identified. These requirements are incorporated into a Five Year Defense Program (FYDP) which is reviewed by top level officials in the services, the Secretary of Defense and the Joint Chiefs of Staff. These requirements eventually become part of the President's Budget which is submitted to the Congress for its review and approval. Congress analyzes this request and passes an Authorization which approves and sets a ceiling for quantities and/or amounts in each program such as the total active

personnel strength for each military component. It is very important to note that this Authorization may be different from the requested figures.

The Congress then approves its version of the budget in the form of an Appropriation Bill which, after being signed by the President, becomes law (an Appropriation Act) and makes a prescribed amount of funds available from the treasury to support the programs identified in the Authorizations. The amount of funds available at the activity level are thus heavily influenced by the budget process, the actions of the President, the Congress and others.

PLANNING, PROGRAMMING AND BUDGETING SYSTEM (PPBS)

Planning and programming in the DON is an integral part of the PPBS in the DOD. Almost every headquarters, directorate, office, branch, or section influences or is influenced by this system of planning for National Defense. PPBS is a comprehensive system which provides the basis for standardized planning and programming for all the armed services. This section highlights some of the more important milestones in the process.

As the name implies, PPBS can be considered to consist of three separate and distinct phases:

a. A planning phase wherein the global threat is assessed and a strategy to meet that threat is defined. This includes an estimation of the force strength and weapon systems required to carry out the strategy.

b. A programming phase which translates the strategic plan's objectives into specific resource requirements for personnel, material, and financing.

c. A budgeting phase which expresses the programs in annual funding requirements.

The three phases are closely interrelated and the calendar year events of planning and programming are timed to conform to the more rigid annual cycle of budgeting. Moreover, there is an overlap of the processes from one fiscal year to the next. This will become more apparent in examining the cycle.

Visualized in the broadest sense, the PPBS spans the following processes:

a. Collection of intelligence.

b. Appraisal of the threat.

c. Development of strategy to meet the threat based on national policy.

d. Determination of force levels to support the strategy.

e. Programming of weapon systems (modifications as well as new systems), manpower and support over a period of time to attain force levels within specified fiscal constraints.

f. Budgeting of annual funds to procure the resources to carry out the programs.

PPBS CYCLE AND MAJOR DOCUMENTS

In the context of the PPBS annual cycle (see Figure I-1) planning is initiated with the submission of the Joint Strategic Planning Document

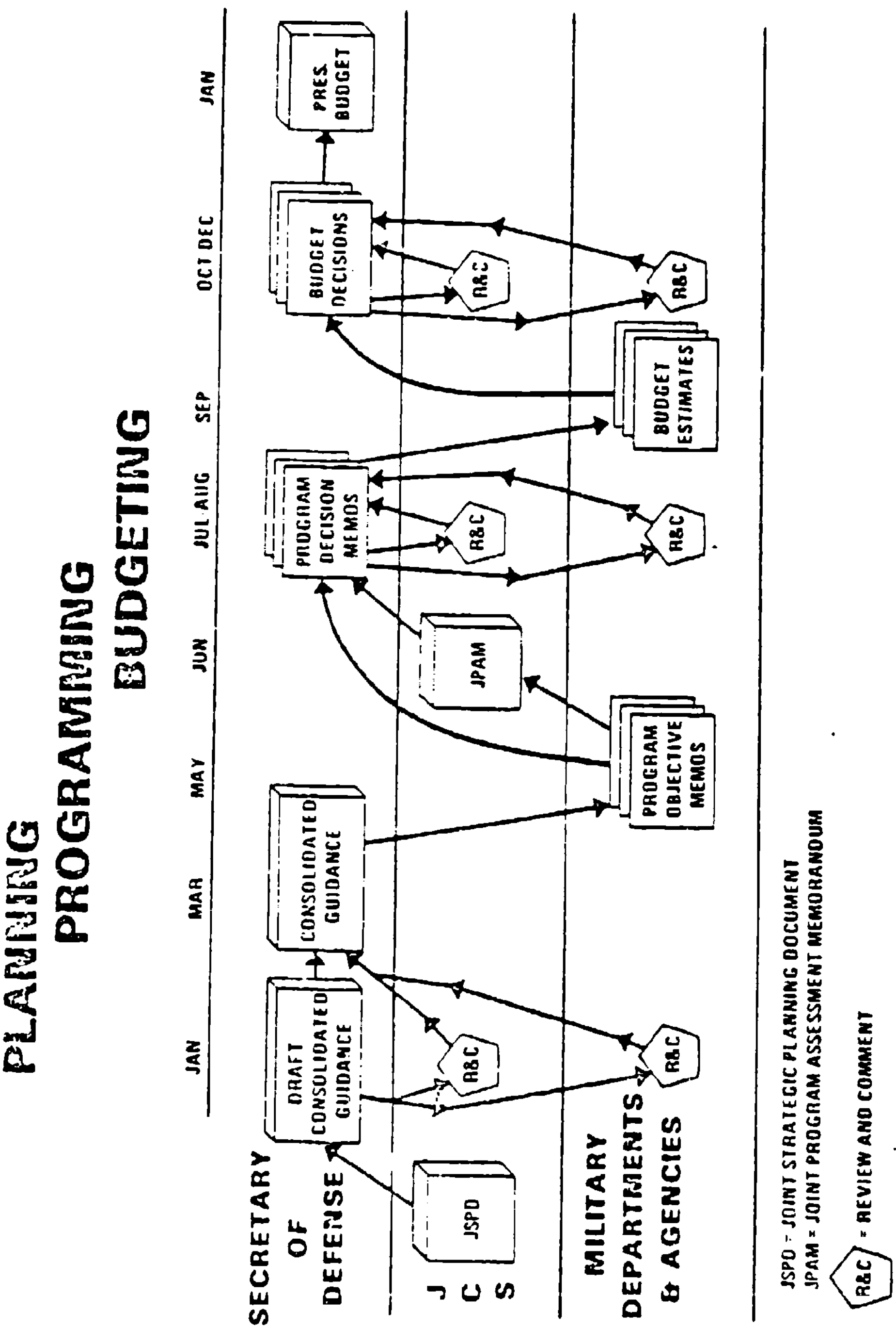


Figure I-1 Planning Programming Budgeting

(JSPD) by the Joint Chiefs of Staff (JCS) and ends with the Secretary of Defense's issuance of the Consolidated Guidance (CG) which is the document providing guidance for preparation of the Program Objectives Memorandum. The JSPD provides the advice of the JCS to the President, the National Security Council and the Secretary of Defense on the military strategy and force structure required to attain the national security objectives of the United States.

The programming phase commences with the promulgation of the CG. This document provides the guidelines that must be observed by the JCS, the military departments and defense agencies in the formulation of force structures and Five Year Defense Programs, and by the Secretary of Defense's staff in reviewing proposed programs, particularly with respect to fiscal constraints. This guidance is based upon the JSPD, as amended to reflect decisions made by the President or the Secretary of Defense. The purpose of the fiscal guidance is to specify the allocation of the resources available to the DOD. The fiscal guidance identifies the total obligation authority and/or outlay by fiscal year for each military department and defense agency.

The Department of the Navy Program Objectives Memorandum (POM) is the Secretary of the Navy's annual recommendation to the Secretary of Defense for the detailed application of DON resources. The POM is developed within the constraints imposed by the CG to satisfy all assigned functions and responsibilities during the period of the Five Year Defense Program. The POM is also the primary means of requesting revision to the Secretary of Defense's approved programs as published in the FYDP.

About thirty days after the services publish their POMs, the JCS issue the Joint Program Assessment Memorandum (JPAM). The JPAM gives the views of the Joint Chiefs on the adequacy of the composite force and resource levels presented in the service POMs. The Secretary of Defense considers the Joint Chiefs' analyses when deciding program issues during the summer issue cycle preceding final approval of the service POMs and the drafting of Program Decision Memoranda (PDM). The PDM and subsequent Amended Program Decision Memoranda (APDM) are used to resolve any conflict between the CG and the service POM. The APDM marks the end of the programming phase.

In the budgeting phase, budget estimates are submitted to the Secretary of Defense for analysis. This analysis includes looking at the estimates through the perspective of ZBB which is discussed in the next section. A Defense Resources Board considers the results of the analysis and makes recommendations to the Secretary on what the final budget estimate should look like. After approval it is submitted to the Office of Management and Budget (OMB) for incorporation into the President's Budget.

ZERO-BASE BUDGETING (ZBB)

ZBB had its origins in the industrial sector. In the DOD it is a systematic process in which management undertakes careful examination of the basis for allocating resources in conjunction with formulation of budget requests and program planning. One can see where this concept

fits into the PPBS cycle from the definition. It can be applied at any level of command from the field activity to the office of the Secretary of Defense.

To help explain the basic premise of ZBB it is helpful to first look at a more traditional form of budgeting - incremental budgeting. This approach focuses on the previous budget for a program (such as military personnel) and asks the question of how much more or how much less is needed to run the program next year. In other words, an examination is made of the justification for increasing or decreasing existing programs or adding a new one. The pure approach to ZBB dictates that one would examine the program from the base up. The question now becomes why have this program at all? Each program would compete for resources with each budget cycle; no portion of the base budget is left unexamined. In reality ZBB in DOD does not examine every program from ground zero. It does, however, force the competing programs to be ranked in a priority order. It also necessitates considering various funding levels for each program or decision unit. ZBB is another management tool which is used to assist decision makers in choosing between competing programs. In this way, it complements the PPBS. An excellent article on ZBB which elaborates on this basic introduction is provided in Annex A to this Guidebook.

APPROPRIATIONS

The Appropriation Act makes funds from the Treasury available for use. An appropriation constitutes the authority to permit the government to

incur liabilities (i.e., make obligations) and to make payments (i.e., expenditures) out of the Treasury for specified purposes. Appropriations permit an agency to hire personnel, purchase supplies and equipment, award contracts, and incur other obligations. Department of the Navy appropriations may be classified into three types: one-year, or annual appropriations; multiple, or more than one-year appropriations; and no-year, or continuing appropriations.

An annual or one-year appropriation is available for incurring obligations only during the fiscal year specified in the Appropriations Act. If funds from an annual appropriation are not obligated in the year of availability, they automatically revert to the grantor of the funds at the end of the fiscal year.

Multiple-year appropriations are available for incurring obligations for a definite period in excess of one fiscal year. The Navy and Marine Corps receive multiple-year appropriations for procurement and for research, development, test and evaluation.

A continuing or no-year appropriation is one which is available for incurring obligations for an indefinite period of time. For example, the Department of the Navy annually receives continuing appropriations for military construction. Also included in this classification of continuing or no-year funds are revolving funds, which are further explained in the chapter on Industrial and Stock Funds.

The appropriations not only specify the amounts but also the purposes for which funds may be used. It is illegal to spend funds from one

appropriation to accomplish a purpose for which that appropriation is not available. In other words, the Navy cannot take funds that have been authorized and appropriated for buying aircraft and use them for ship construction without prior approval from the Congress.

THE APPROPRIATION CATEGORIES

The Navy appropriation structure is based upon major programs or broad areas of effort. The nature and number of appropriation categories are not static. They are often changed in the continuing effort to improve financial management. Several broad categories remain relatively constant, however, and encompass most of the Navy activities requiring funding. These appropriation categories are briefly described below.

MILITARY PERSONNEL, NAVY (MPN) - These appropriations provide for the pay, allowances, clothing, subsistence and permanent change of station moves for active duty Navy.

RESERVE PERSONNEL, NAVY (RPN) - These appropriations provide for the pay, allowances, clothing, subsistence, per diem travel and other related costs for reserve personnel of the Navy. These annual appropriations are centrally administered along with MPN.

OPERATIONS AND MAINTENANCE NAVY (O&MN) - These are the bread-and-butter annual appropriations for most Navy activities. They provide funds to finance the costs of the day-to-day operations and maintenance of the Navy. The funds pay for salaries and fringe benefits of civilians, contracts for maintenance of equipment and facilities, fuel, supplies, and repair parts for weapons and equipment. For most activities, the O&M appropriation provides funds in support of an Operating Budget

which is the master financial planning and control document for accomplishing a mission. An Operating Budget contains estimates of workload, manpower and dollars and also a dollar estimate of the reimbursable workload or the work and/or services a command may perform for others.

OPERATIONS AND MAINTENANCE, NAVY RESERVE (O&MNR) - These are also annual appropriations which provide for the day-to-day support of Navy Reserve activities, ships and aircraft. The type of support is similar to that of the regular establishment under the O&MN appropriation.

PROCUREMENT APPROPRIATIONS - The following comprise the procurement appropriations of the DON:

a. Aircraft Procurement, Navy (APN)

b. Weapons Procurement, Navy (WPN)

c. Shipbuilding and Conversion, Navy (SCN)

d. Other Procurement, Navy (OPN)

RESEARCH, DEVELOPMENT, TEST AND EVALUATION, NAVY (RDT&E) - This appropriation finances the cost of the scientific research, development, test and evaluation of new and improved weapons systems and related equipment for both the Navy and Marine Corps. The work is performed at Navy R&D laboratories and under contract by industrial firms, universities, and non-profit organizations.

STOCK FUNDS AND INDUSTRIAL FUNDS - There are two additional categories of funds which are equally as important as the appropriations identified above. These are Navy Stock Funds and Industrial Funds. A separate chapter provides a brief familiarization with the operation of these funds.

THE FLOW OF FUNDS

Having looked at some of the largest appropriations, the question arises as to how these funds flow downward from the Congress to the Naval Commands and activities. Figure I-2 provides a very simplified version of how the process works. After Congress passes the Appropriation Bill, it is signed by the President and becomes an Appropriation Act. This Act is then assigned a Public Law Number. Any limitations contained in the Act now become statutory limitations. The ramifications of these limitations are discussed in the chapter on the Legal Aspects of Fund Management. The Treasury then issues an Appropriation Warrant to the Office of Management and Budget (OMB) which apportions the funds through the Secretary of Defense to the Navy as well as the other services and defense agencies. Annual appropriations are funded on a quarterly basis (a specific amount of funds for each three month period) and multi-year appropriations are funded on a yearly basis. The idea behind this method is to keep administrative controls on the rate at which the funds may be used so that it will not be necessary to request additional or supplemental funds from Congress because of poor management. All Navy funds except RDT&E flow through the Office of the Chief of Naval Operations (CNO) which acts as the Responsible Office for these appropriations. RDT&E funds flow through the Assistant Secretary of the Navy for Research, Engineering and Systems (ASN(R,E&S)). The CNO's Comptroller administers the funds (i.e., budgets, accounts and reports on the funds). The Comptroller reallocates O&MN funds to major claimants such as the

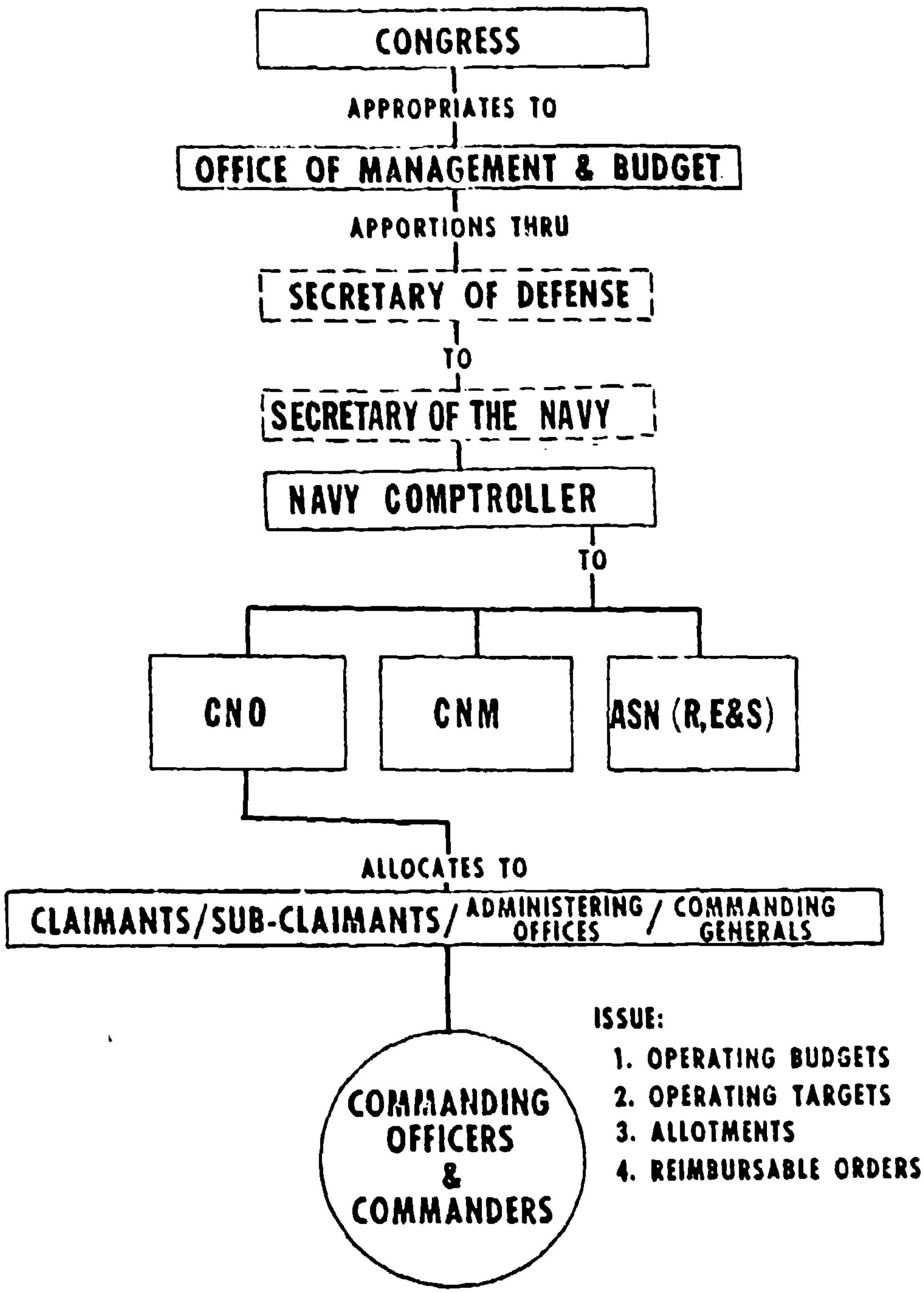


Figure I-2 The Flow of Funds

Commander in Chief, U.S. Pacific Fleet who in turn issues Operating Budgets to subordinate activities. Procurement and military construction appropriations are reallocated to the Chief of Naval Material (CNM) for further reallocation to the systems commands. The Military Personnel, Navy appropriation is administered by CNO.

The allocations of funds described above are usually divided into suballocations and are subsequently issued as operating budgets, allotments, suballotments or operating targets as they proceed down the chain of command to make the funds available for commitment, obligation and expenditure.

Since these three terms are essential to understanding financial management, it would be helpful to define them in more detail.

a. A commitment is a firm administrative reservation of funds, based on firm procurement directives, orders, requisitions, authorizations to issue travel orders, or requests which authorize the recipient to create obligations without further recourse to the official responsible for certifying the availability of funds. The act of entering into a commitment is usually the first step in the process of spending available funds. The effect of entering into a commitment and the recording of that commitment on the official accounting records is to reserve funds for future obligations. A commitment is subject to cancellation by the approving authority provided it has not been obligated. Commitments are not required under O&M appropriations.

b. An obligation represents the amount of an order placed, contract awarded, service rendered, or other transactions which <u>legally</u> encumbers a specified amount of an appropriation or fund for expenditure.

c. Expenditures (disbursements) result in actual payments from available funds. They are evidenced by vouchers, claims, or other documents approved by competent authority.

ALLOTMENTS/SUBALLOTMENTS

All initial fund authorizations under appropriations other than the O&M and RDT&E appropriations are in the form of Allotments. The granting of an allotment reduces the available balance of the appropriation but does not constitute a commitment or an obligation. The holder of an allotment may create commitments, obligations, and expenditures against the appropriation within the scope of the allotment.

The holder of an allotment may issue suballotments under appropriate circumstances. The granting of a suballotment reduces the available balance of the allotment but does not constitute a commitment or an obligation. The holder of a suballotment may create commitments, obligations and expenditures against appropriations within the scope of the suballotment.

CHAPTER II

REIMBURSABLE ORDERS

INTRODUCTION

A separate chapter of this guidebook has been prepared on the subject of reimbursements for several reasons:

1. Reimbursables are a source of funding and may increase the amounts for obligation in a resource authorization.

2. Violations of 3679 R.S. may occur if an activity bills another activity for work or services in excess of the amount of the reimbursable order. Violations are discussed in Chapter IV.

REIMBURSABLE ORDERS

Reimbursable orders represent work or services requested by another Naval activity, government agency, or private party. A reimbursement results in a credit being applied to an appropriation. Services may be performed on a fixed price, fixed rate, or actual cost basis. The acceptance of a reimbursable order by a performing activity increases the obligation authority available to the performing activity. Two of the most commonly used forms for rendering or obtaining reimbursable work are shown in Figures II-1 and -2. They are the Work Request and the Project Order.

WORK REQUESTS

A Work Request is an order, authorized by the Economy Act, for materials, supplies, equipment, work or services of any kind that may

WORK REQUEST NAVCOMPT 140 (Rev. 7-76) S/N 0104-LF-700-1401	☐ INITIAL REQUEST	AMENDMENT NO. BASIC
NUMBER N002477WR70845	DATE 28 Sep 1976	MAXIMUM AMOUNT AUTHORIZED $16,000.00

ACCOUNTING DATA TO BE CHARGED

APPROPRIATION SYMBOL AND SUBHEAD	OBJECT CLASS	BUREAU CONTROL NO.	AUTHORIZATION ACCT'G ACTIVITY	TRANS. TYPE	PROPERTY ACCT'G ACTIVITY	COST CODE
AA 1771804.2479	000	00024 E	065872	2D	000000	0033010000N1Q

JOB ORDER NUMBER	COMPLETION DATE OR PERIOD OF WORK
	31 Dec 1976

TYPE OF REQUEST	TYPE OF ORDER
☒ CONTINUING	☒ COST REIMBURSEMENT
☐ SPECIFIC	☐ FIXED-PRICE
☐ NUMEROUS	

TO:
Commander
Mare Island Naval Shipyard
Vallejo, CA 94592

00221

NAME OF CONTACT FOR ADDITIONAL INFORMATION:	CODE	TELEPHONE NO. (Indicate Autovon, FTS or Commercial)
J. J. Jones	NAVSEA 0733	x21263

WORK TO BE PERFORMED IN ACCORDANCE WITH ABOVE INFORMATION

BCC-RP

Funds are provided for Operation of Utilities.
for the First Quarter of Fiscal Year 1977.

Authorized This Amendment $16,000.00

Tentative Annual Planning Figure: $30,000.00

Forward acceptance (on or subsequent to first day of quarter involved) to NMCSA-123, Washington, DC. Information copies to NAVSEA 0183 and NAVSEA 0733.

In accordance with NAVCOMPT Manual Para. 032501, amendments for the purpose of recouping the unused balance of a reimbursable order will not be issued.

Copy to:

SE/ 0733
0183 (3)
NMCS/-123

REQUESTING OFFICE (Signature and title)	ACCEPTING OFFICE (Signature and title)

FROM:

ADDRESS:
Commander
Naval Sea Systems Command (SEA 0733)
Department of the Navy
Washington, DC 20362

← SENDER'S MAILING ADDRESS
Address reply as shown at left; or reply hereon and return in window envelope (size 8-7/8" x 3-7/8"), if not classified as confidential or higher.

CLASSIFICATION

Figure II-1 Work Request

PROJECT ORDER
NAVCOMPT FORM 2053 (Rev. 8-74)
S/N 0104-LF-703-2030

1. PROJECT ORDER NO.	2. AMENDMENT NO.
N0002477PO78193	BASIC

3. TYPE	4. ISSUE DATE	5. EXPIRATION DATE	6. CUMULATIVE TOTAL
☒ COST REIMBURSEMENT ☐ FIXED-PRICE	1 Oct 1976	31 Dec 1976	$60,800.00

7. ACCOUNTING DATA TO BE CHARGED

APPROPRIATION SYMBOL AND SUBHEAD (a)	OBJECT CLASS (b)	BUREAU CONTROL NO. (c)	AUTH. ACCTG. ACTIVITY (d)	TRANS. TYPE (e)	PROPERTY ACCTG. ACTIVITY (f)	COST CODE (g)	AMOUNT (h)
AA1771804.2476	000	00024K	065872	2D	000000	007402000FFQ	$60,800.00

8. PERFORMING ACTIVITY — a. NAME AND LOCATION

TO: Commander
Long Beach Naval Shipyard
Long Beach, CA 90802

b. UIC NO.	c. ACCOUNTABLE ACTIVITY
60258	60258

9. DELIVERY INSTRUCTIONS
a. PLACE
b. DATE
c. METHOD

10. DESCRIPTION OF WORK TO BE PERFORMED AND OTHER INSTRUCTIONS (If more space is required, attach additional sheets)

1. Funds and authorization are hereby provided to restore the following items from the USS HORNE (CG-30), IAW MILSPEC MIL-R-24358(SHIPS) of 1 November 1968, and return to CG-30 in RFI condition.

NOMENCLATURE	NSN	QTY	COMPLETION DATE	AMOUNT
PU-491/C-3414/USQ-20(V)	2F6125-00-950-8862	3	31 December 1976	$20,800.00
SB-1881/USQ-20(V)	NONE	1	31 December 1976	40,000.00

2. Each work item must be completed by the completion date specified herein. If the required completion date cannot be met, NAVSEA 0431 is to be notified by message within five days of that determination, stating reason for delay and completion that can be met.

3. Funds granted are based on best estimates available; all expenditures and any change in the estimate of final repair costs are to be reflected on the Repair Program Report (Form NAVSEA 4440/1).

In accordance with NAVCOMPT Manual Para 032501, amendments for the purpose of recouping the unused balance of a reimbursable order will not be issued

Copy to: 0413 (2) 04312
0183 (3) 04412 SA 1230

11. This Order is placed in accordance with the provisions of 41 USC 23, Department of Defense Instruction 7220.1 as amended, and NavCompt Manual, Volume 2, Chapter 3, Part C. Work to be performed and material to be procured pursuant to this Order are properly chargeable to the appropriation or other accounts indicated above until the expiration date of this Project Order. Funds in the amount shown under the block "Cumulative Total," have been committed and will be obligated upon receipt of the acceptance copy by the ordering component.

a. AUTHORIZING OFFICER (Typed name and title)	b. SIGNATURE
A. B. SMITH, COMMANDER, NAVSEASYSCOM	A B Smith

12. ACCEPTANCE (The above terms and conditions are satisfactory and accepted)

a. ACCEPTING OFFICER (Typed name and title)	b. SIGNATURE	c. DATE

13. ORDERING COMPONENT (Name and location)

ADDRESS: Commander,
Naval Sea Systems Command
Department of the Navy
Washington, DC 20362

SENDER'S MAILING ADDRESS

Address reply as shown at left, or reply hereon and return in window envelope (size 8-7/8" x 3-7/8"), if not classified as confidential or higher

CLASSIFICATION

Figure II-2 Project Order

be obtained from Naval components which may provide the goods or services, or obtain such by contract. The Work Request has a definite lifetime. It remains available for obligation purposes as long as the funding appropriation has not expired or otherwise been restricted by higher authority. For example, a Work Request citing an annual appropriation, such as O&M, expires for obligational purposes on 30 September, annually. If the goods or services described in a Work Request have not been provided by 30 September, a new Work Request must be issued citing new O&M funds. Work Requests must not be issued for any purpose for which a Project Order is required.

PROJECT ORDERS

When the work or service encompassed by the order is specific and definite, then a Project Order is used (NAVCOMPT Form 2053). (See Fig. II-2) Such orders are analagous to contracts placed with commercial contractors and have the same obligation status as a contract. Unlike the Work Request, funds cited in the Project Order are available for obligation until the work specified therein is completed and a final billing is rendered. However, caution must be exercised in the issuance of these orders to insure that they, in fact, meet the criteria established for project orders.

COST AND BILLING

The costs incurred for labor, material, and overhead at the performing activity may be charged directly to the customer's individual job

order. The job order number is established by the performing activity for the customer for each reimbursable order received and accepted by the performing activity. The costs are initially charged to the performer's funds. Subsequently, these charges are billed to the customer's funds thereby reimbursing the activity's operating account.

FUNDED REIMBURSEMENTS

There are two types of reimbursements: "funded" and "unfunded." The funded reimbursement is one in which the performing activity pays the cost of goods or services from its resource authorization or operating account. After the work has been completed, the performing activity is reimbursed by billing the requester. Requests for continuing services such as janitorial, snow removal, educational or utility services among Naval activities are ordered on a Work Request (NAVCOMPT Form 140). (See Fig. II-1)

UNFUNDED REIMBURSEMENTS/"FREE ASSETS"

When an activity sells material or equipment requested from a stores account as a "cash sale," the reimbursement is not credited at the activity level; the reimbursement is processed as an unfunded transaction, i.e., the reimbursement is credited at the appropriation level for reprogramming or reapplication by higher authority. This material or equipment is known as a "free asset." It is so designated because the material or equipment which is sold will not be replaced by the selling activity. Unfunded reimbursements result when goods (stock issues) or services are

provided without a specific order. Reimbursements for user charges (firing range usage) and surcharges (commissary surcharges) are examples.

CHAPTER III

ACTIVITY LEVEL BUDGETING

WHAT IS A BUDGET?

A budget for any organizational entity is a financial plan of action. In its broadest sense, budgeting is a systematic technique for overall financial planning.

The DON budget is a combination of administrative and legislative processes. The task of developing the budget of the U.S. Government has been delegated to the Executive Branch; the function of review and approval rests in the hands of the Legislative Branch. Thus, when an activity prepares its budget it will be forwarded to its management command and combined with other budgets. In the final analysis, an activity's budget becomes a part of the Department of Defense Budget, and ultimately it becomes a part of the President's Budget presented to the Congress for review, modification, and approval.

An operating budget is designed to provide a plan against which performance can be measured, variances analyzed, and adjustments made to permit effective management of resources at all echelons. Although the budget is an annual plan, it must contribute to the attainment of future objectives and missions. It is not an entity unto itself; it has roots in the past and must bear a direct relationship to the future.

The development of an operating budget is a process of determining valid requirements at the lowest echelon (normally a cost center), and summarizing these requirements with those of other cost centers for the

total activity. In developing a budget, the cost center manager utilizes those specific guidelines provided by the commanding officer.

BUDGET GUIDANCE

Substantive guidance concerning overall budget amounts and particular programs is developed at all levels and issued to subordinate echelons. Guidance is issued by the President based on a number of factors including various monetary and fiscal policy considerations as well as assessment of the international situation. Guidance from higher levels is translated into more specific guidelines at the lower levels. Budget formulation at operating activities is based on program planning and policy guidance received via command channels from the cognizant departmental organization. It may be supplemented at intermediate levels of command, and translated into specific requirements for the particular activity. The guidance also must reflect the management policies of the commanding officer, who is responsible for the assignment of local budget responsibilities and has the final responsibility for the completed estimate.

ACTIVITY LEVEL BUDGET PREPARATION

The commanding officer normally issues a yearly "budget call" requesting cost center managers to develop their operating budget estimates and provide supporting justification and data. (At small activities, the comptroller or budget officer may prepare the entire estimate with assistance from operating personnel.) In the budget call, the CO communicates policy decisions, assumptions, and instructions based on

guidance received through command channels, together with a projection of local program and workload objectives. Also included is information about specific budget procedures; actions required of each cost center; the schedule for these actions; and the approved flow of budget data from point of origin to review levels.

Basically an operating budget is constructed in four steps:

1. Translating the planned workload for each cost center into budget/accounting classifications, such as civilian and military labor hours, material requirements, work or services to be performed by others, etc.

2. Applying realistic dollar values to each of the above within the guidelines established by the Naval Comptroller as amplified by other superior commands.

3. Summarizing the dollar estimates for each cost center, thus providing the planned operating budget for internal use.

4. Preparing the final budget for the total activity and submission to higher authority.

One must realize that a command may not receive 100% of the funds which are requested in the budget. From previous readings in the Guidebook it should be apparent that the final budget approved by Congress is the result of many fiscal tradeoffs as well as political considerations. The budget submission reflects the command's needs and should be stated as accurately as possible and contain firm justification in order to have the best chance of competing for the limited funds available. The next two sections offer some approaches to local budget preparation.

BUDGET CALL

The "Budget Call," a request to submit a command's budget to the next superior echelon, usually starts the local preparation process. However, since the time between receipt of the budget call and the due date is so short - maybe three to five weeks - it is wise for the activity's comptroller to issue an internal budget call prior to receipt of the external request. Although specific guidance which accompanies the budget call from higher authority will be lacking at that time, the cost center managers (usually department heads) will require lead time if a thorough budget preparation is expected. Budgeting should be a continuous process, not just a once a year process in response to the budget call.

Depending on how the activity is organized, the size of the activity, and the commanding officer's policy, the cost center manager can be instructed to submit the cost center budget following one of the methods listed below or some other format which is better suited to the activity.

1. Assign the cost centers a control number or ceiling above which they cannot budget. Since the command may not have received its overall control numbers as yet, the comptroller or budget officer will have to rely on past budgets or informal information from outside contacts to estimate these numbers. Anything over the control number would become an unfunded requirement for the cost center and would be submitted with full justification. These could then be easily revised when the actual budget call and control numbers are received.

2. Do not assign any planning figures. Let each cost center manager submit a budget based on the programs and level of activity considered necessary to carry out assigned tasks and mission. This approach would be compatible with a Zero-Base Budget review. Each need for funds would be ranked in priority order and a cumulative comparison with the control numbers would determine which items were to be listed as funded on the external budget submission. Annex A contains a more detailed description of this process.

3. Require only an exception report which will include just increases or decreases from an established base. The base can be last year's budget, last year's budget plus or minus some percentage, or control numbers approximating what the actual numbers are expected to be. The cost center manager would only have to submit a negative report if there were no changes from the base, and in case of changes would only have to report and justify the differences.

UNFUNDED REQUIREMENTS

Those programs and functions which cannot be performed within the constraints of the control numbers become "unfunded requirements" and are generally submitted with the operating budget. Careful preparation of unfunded requirements is one of, if not, the most important part of budget preparation. Each item on the list should have full justification i.e., an economic analysis if applicable including the impact which not performing the function will have on the ability of the command to carry out its mission. The list must be prioritized by importance and fully priced.

As a practical matter, the list should be limited to only the most important items, but inclusive enough to allow several options to the commanding officer and those who will review the list external to the command. How well the list of unfunded requirements is prepared may determine which station gets the percentage of funds that might be allocated later in the year. Cost center managers should be similarly motivated to prepare a good list for their internal submission. It is critical that the list be maintained with current priorities and prices, and not put together just once a year at budget time. This allows for contingency planning and help negates "fire drills" as additional funds become available.

BUDGET AND FUNDS JUSTIFICATION

Because programs are as varied as they are numerous, there is no single form in which a proposal for funding can be described and justified. For example, the facts required to support a need for funds to cover "preservation of material in store" are quite different from the facts required to support funds for "Polaris Missiles" or for "ship overhauls." The justification process tries to find the facts that will be most useful in describing and supporting these varied requirements. Many of these facts are available from planning and comptroller personnel within an activity. Requirements as stated in Operating Plans or instructions are other sources. Economic analysis also can be used as justification.

The justification process requires written and possibly oral and graphic material to support requests for funds. Such support is given at each level of review. The CO may be required to justify the request, both orally and through "back-up" material, to the superior in the funding chain. A brief on different segments of the budget, emphasizing those areas where questions at higher levels are anticipated, or where policy decisions are required may also be made.

Again, it must be realized that a command may not receive 100% of its request. It is therefore prudent to determine what programs would be first to go unfunded if the budget were reduced by 5% or 10%. On the other hand, if additional funds should become available, a prioritized list of programs such as the unfunded requirements list should be ready for implementation.

THE CO'S REVIEW

Cost center estimates are usually forwarded first to the activity comptroller or budget officer for analysis and review. He or she then presents these estimates to the commanding officer and offers such recommendations as considered necessary. The CO may approve, disapprove or modify a cost center budget request or unfunded requirement based on his/her own evaluation of the program, workload, and priorities. If disapproved or modified, the affected departments must make the necessary adjustments and resubmit the estimates.

Following the CO's final approval, the comptroller's staff or budget officer summarizes the total operating budget in the required budget/

accounting classifications. The submission to the next level of command should reflect the alignment of command priorities and should contain additional data required, such as schedules of personnel positions and compensations, statements justifying the planned workload and justification for any increase over current funding levels as previously discussed.

FUND AUTHORIZATIONS

After a budget submission has been approved by the chain of command, funding is obtained through two media, i.e., an operating budget or reimbursable orders. These provide obligation/expense authority for accomplishment of missions and for budget execution. They contain essential information regarding availability of funds and identify those legal restrictions on the use of these funds. Funding authorizations for operation of activities are identified as follows:

Operating Budgets

NAVCOMPT Form 2168-1	Resources Authorization	(O&M Activities)
NAVCOMPT Form 372	Allotment/Suballotment	
NAVCOMPT Form 2189-1	Approved Operating Budget	(RDT&E Activities)

Reimbursable Orders

NAVCOMPT Form 2053 - Project Order	Applicable to all Operating Activities
NAVCOMPT Form 140 - Work Request	

The funding authorization may contain amendments to increase or reduce program and related financing or to finance unbudgeted or cost growth requirements. Reimbursable orders are used by all activities to finance those areas which are not financed by management commands through the O&M and RDT&E Operating Budgets. At industrial fund activities, all work and services are financed through reimbursable orders.

OPERATING TARGETS/PLANNING ESTIMATE AUTHORIZATIONS

Commanding officers may give subordinates a degree of financial responsibility paralleling their other responsibilities by the administrative procedure of issuing Operating Targets (OPTARs) or Planning Estimate Authorizations (PEAs) for funds that are planned for utilization by the subordinate commander. The OPTARs and PEAs are not to be construed as legal subdivisions of funds; therefore, even if a CO issues an OPTAR or PEA to a subordinate, he will retain all legal and accounting responsibility for the assigned funds.

CHAPTER IV

LEGAL ASPECTS OF FUND MANAGEMENT

INTRODUCTION

With the establishment of command fundings in the Department of the Navy in fiscal year 1968, financial responsibilities in the operations and maintenance area were made to parallel responsibilities for command. Naval Regulations dictate that the commanding officer is responsible for the efficiency of his command which includes the use of financial resources. While these facts certainly come to bear on the performance of an officer's financial management responsibilities, the onus is found in public law. Chapter I discussed how the funds flowed from the Appropriation Act down to the individual activities. The same law which made the funds available for use placed legal restrictions on that use. This excerpt from Title III of Public Law 96-154-Dec. 21, 1979 93 STAT.1142 serves to illustrate some of those restrictions:

> Operation and Maintenance, Navy
>
> For expenses, not otherwise provided for necessary for the operation and maintenance of the Navy and the Marine Corps, as authorized by law; and not to exceed $1,494,000 can be used for emergencies and extraordinary expenses, to be expended on the approval or authority of the Secretary of the Navy, and payments may be made on his certificate of necessity for confidential military purposes; $13,272,245,000 of which not less then $386,100,000 shall be available only for the maintenance of real property facilities: Provided that of the total amount of this appropriation made available for the alteration, overhaul, and repair of naval vessels, not more than $2,400,000,000 shall be available for the performance of such work in Navy shipyards of which not less than $22,000,000 shall be available

for such work at the Ship Repair Facilities, Guam: Provided further, that such amounts of the funds available for work only at the Ship Repair Facilities, Guam, may be used for work in other Navy shipyards in amounts equal to the amount of work placed at the Ship Repair Facilities, Guam, funded from other sources.

Two sections of the Revised Satutes serve to enforce the intent of the Appropriation Acts. These two statutory limitations and the additional restrictions which may be imposed by others in the apportionment and allocation process are examined in this chapter.

STATUTORY LIMITATIONS

The two major fiscal constraints imposed on the obligation and expenditure of appropriated funds are found in Section 3678 of the Revised Statutes, 31 U.S. Code 628 and Section 3679 Revised Statutes, 31 U.S. Code 665. Section 3678 states:

> Except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are respectively made, and for no others.

Section 3679 prohibits any act which will cause an obligation or expenditure in excess of the apportionment or reapportionment made for an appropriation or any administrative subdivision thereof, including allotments.

In addition to the aforementioned, certain other provisions of law which must be administered as limitations establish the maximum or minimum amount which may be used under an appropriation for a specified purpose. These are more commonly referred to as "ceilings" and "floors"

respectively. There are also other legal limitations which are unrelated to specific amounts. For example, there is a basic prohibition against the expenditure of federal funds for purposes which are not authorized by law. Entertainment expenditure is an example.

LIMITATIONS IMPOSED BY GRANTORS

Other limitations or constraints on financial authority may be imposed by the grantor at any level as further subdivisions of funds are made to the next subordinate level. It is important to note that these are two major divisions of limitations each with markedly different legal ramifications.

The first division of constraints carry the applicability of statutory regulations as specific and absolute limitations. They carry firm dollar limitations. Substantive limitations which restrict the availability of authorizations, thereby limiting authority at a subordinate level to incur obligations or make expenditures, <u>may not be levied</u> unless they are extensions of identical restrictions imposed by the preceding funding authority or have the documented approval of that authority. This type of constraint is intuitively obvious after looking at the statutory limitations.

The second division consists of restrictions which are subject to flexibility without the intention that they be considered as separate subdivisions of funds and are therefore <u>exempt</u> from the consequences of legal limitations. They are stated in terms of advisory guides to the recipients, allowing options or an amount of flexibility

(usually stated as a percentage of an initial amount) in the use of funding. Restrictions of this nature may be imposed on a subordinate level without the authorization of a higher funding level. However, the use of such restrictions should be limited to situations where normal management type reporting cannot accomplish the desired control over expenses incurred by subordinate commands. These are referred to as "fencing" restrictions. The difference between the two divisions is not adequately understood by many commanding officers and department heads.

FENCING RESTRICTIONS

It is a basic tenet of the financial management system that fencing restrictions attending expenses approved in the operating budget be kept to the absolute minimum necessary to adhere to statutory or other regulatory requirements. Emphasis must be placed on giving local activity management the maximum practicable flexibility in the application of approved resources.

Looking at this from a commanding officer's viewpoint, he receives his Resources Authorization on a NAVCOMPT Form 2168-1. (See Figure IV-1) To him that immediately implies rigid statutory limitations on all his funding perogatives. That is not totally accurate. The total direct expense authority contained in Column 3 of the 2168-1 is a target on a cumulative basis and not subject to Section 3679. When expenses exceed the total expense authority, a letter or message report to the operating budget grantor is required rather than a Section 3679 violation report. The NAVCOMPT Manual directs that operating budget grantors should exercise

RESOURCE AUTHORIZATION

From	To	OB Number / Approved by
Chief of Naval Education and Training	Naval Postgraduate School	68271
1701804	Subhead 6289	JACK HEYL By direction

[ ]
[X] 1
Approval Date: 28 May 80
Effective Date: 28 May 80

Quarter	Total Direct Expenses: Increase (Decrease)	Total Direct Expenses: Cumulative	Changes in Undelivered Orders: Increase (Decrease) (4)	Changes in Undelivered Orders: Quarterly Amount (5)	Total Direct Operating Budget: Increase (Decrease) (6)	Total Direct Operating Budget: Cumulative (7)	Military Personnel Expenses: Increase (Decrease) (8)	Military Personnel Expenses: Quarterly Amount (9)	NOA Obligational: Increase (Decrease) (10)	NOA Obligational: Cumulative
[illegible]		3,985				3,985				3,985*
[illegible]		8,955				8,955				8,955*
[illegible]	+187	13,532			+187	13,532			+187	13,532*
[illegible]		16,798				16,798				16,798*
Total		16,798				16,798				16,798*
									Pay Raise	774
									AFP	17,572

JUN 13 8 35 AM '80

*Limitation subject to Section 3679, R.S.

1. All dollar amounts in thousands.
2. NOA has been increased due to mid-year review adjustments for a new total of $16,798. The total NOA is subject to Section 3679, R.S., but may be increased by the amount of valid reimbursable orders received and accepted.
3. Includes an annual amount for Maintenance and Repair of Real Property Facilities of $1,677. The amount constitutes a target in terms of anticipated obligations.
4. Includes an annual amount for Personnel Support Equipment of $90. The amount constitutes a target in terms of anticipated obligations.
5. Includes an administrative target of $1,125 for direct and reimbursable travel obligations, including subsistence. While this target is not subject to Section 3679, R.S., it will not be exceeded without prior approval of CNET (Code N-6).
6. Graduate education for officers is limited to not more than 511 inputs to civilian and military institutions.
7. First and second quarter funds previously provided by CNET 192011Z Dec 79.

Copy to:
[illegible], NSC, Oakland, CA

Figure IV-1

care in defining restrictions transmitted in NAVCOMPT Form 2168-1 so as to avoid the appearance of subjecting various segments of the authority to the sanctions of Section 3679 when such is not intended. The budget grantor normally will have a small reserve set aside to cover this type of occurrence. However, subordinate commands should have effective internal review procedures which would allow the timely identification of programs requiring additional funding thus precluding overobligation. Sometimes this need can be met through the reprogramming of local program funds at the command level vice a supplemental funding request. Conversely, New Obligational Authority (Column 11) is a limitation on a cumulative quarterly basis and therefore subject to the provisions of Section 3679.

REPROGRAMMING

After receipt of the NAVCOMPT 2168-1, each activity must submit a detailed operating budget showing how the funds are programmed for use. But this budget is not set in concrete. Congress itself has generally accepted the view that rigid adherence to the amounts previously justified for budget activities or subsidiary items or programs may unduly jeopardize the effective accomplishment of planned programs in the most businesslike and economical manner. However, any subsequent command reprogramming based on an internal adjustment of programs must be reported to higher authority. This is the type of management reporting mentioned in the grantor's limitations section. Many shifts of funds within an appropriation are perfectly legal provided they do not violate any of the limitations discussed earlier which were placed on the appropriation

sponsor or the major claimant. On the other hand, an expenditure of funds from one appropriation to purchase an item authorized under another appropriation would constitute a violation of Section 3678. However, Congress recognizes that this type of inter-appropriation reprogramming of funds may be the most effective fiscal policy. Prior approval is required to accomplish this action. The Secretary of Defense has some limited transfer authority for higher priority items, based on unforeseen military requirements, than those for which the appropriation was originally made. In no instance can this authority be used on items for which Congress has previously denied funding. Other reprogramming requests above certain limitations and thresholds require either prior approval from or notification to one or more congressional committees. The important point being that Commanding Officers cannot unilaterally accomplish this type of reprogramming at their level. To do so would be a direct violation of statutory law.

SUMMARY

The legal provisions of Section 3679 only apply if the command receives funds in the form of an Operating Budget, reimbursable order or an allotment. Funds granted via an OPTAR do not fall under Section 3679. However, commanding officers are nonetheless administratively accountable to the next echelon for any overcommitment or overobligation. While provisions of Section 3678 apply to all funds received at the command level, commanding officers have some latitude for the reprogramming of funds within the same appropriation.

CHAPTER V

INTERNAL REVIEW AND AUDITING

INTERNAL REVIEW AND MANAGEMENT ANALYSIS

Commanding officers are personally responsible for proper funds administration. The function of internal review is implicit in the responsibility but applied inconsistently by many. Internal review functions are designed to provide CO's with an independent in-house capability for review of financial and other resources, related analysis and trouble-shooting, and the discharge of assigned audit responsibilities. The functions of internal review and management analysis are complementary. They deal with much the same subject matter and use many of the same techniques of analysis. The primary difference is in approach to the subject and the time frame of interest.

AUDIT TYPES

The General Accounting Office's standards for auditing divide audits into three different levels or types based on its particular objectives. These are:

1. Financial and Compliance

Audits of this type determine whether financial operations are properly conducted, whether the financial reports of an audited entity are presented fairly, and whether the entity has complied with applicable laws and regulations.

2. Economy and Efficiency

This type of audit determines whether the entity is managing or utilizing its resources (personnel, property, space, and so forth) in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures or organizational structure. Specifically, these audits delve into such matters as the following:

a. Need for goods or services provided or procured.

b. Reasonableness of costs incurred or expenditures made.

c. Adequacy of safeguards over and care of resources acquired.

d. Proper utilization of resources.

e. Adequacy of revenue received for goods or services sold.

3. Program Results

This type of audit determines whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorizing body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost. In this type of audit, questions such as the following are asked:

a. How successful is the program in accomplishing its intended results?

b. Is the program succeeding within the cost framework originally anticipated?

c. Are costs commensurate with benefits achieved?

d. Have alternative programs or procedures been examined for their potential for achieving objectives with greater economy and efficiency?

MANAGEMENT ANALYSIS

The function of management analysis is oriented to the present and future. Its objective is to assist the command in organizing and operating to best accomplish the command mission within the constraints of available resources. To do this, those who perform the function will be using techniques to establish the best ways to employ resources within existing policy guidelines and making recommendations for change to systems and allocations within the command. Along with the findings from internal reviews, the results of management analysis may be policy changes, budget changes, or other developments which bring about new requirements or procedures.

FUNCTIONS OF INTERNAL REVIEW

The internal review function includes the conducting of special audits, studies, analyses, and investigations of financial operations and the use of command resources to detect deficiencies, improprieties, and inefficiencies. In addition, this function provides recommendations to correct conditions that adversely impact financial management, mission accomplishment, or the integrity of command.

The commanding officer is responsible for implementing internal review functions. These functions are usually accomplished by an interdisciplinary group either assigned permanently or on an ad hoc or collateral duty basis, depending on the size of the command, complexity of operations, and the type of review to be performed. The disciplines represented in an internal review staff should typically consist of line command/management,

financial management, and the dominant technical, scientific, or management skill most representative of the command mission. The best Internal Review staff, however, is one whose full time is dedicated to this function. Because of its importance, CO's should consider making this a full time effort even at the expense of personnel manning in other areas. The dollarized savings can often be staggering.

Internal review is responsible for examining internal management controls, practices, and procedures at all levels. It ensures that there is financial integrity and effective utilization of all available command resources. In addition, the internal review function could include:

1. Auditing of the civilian timekeeping and payroll functions and certain nonappropriated fund activities.

2. Monitoring the correction of deficiencies which are revealed by the Naval Audit Service, General Accounting Office (GAO), or by other external reports, analyses, or observations.

3. Monitoring and evaluating the design and installation of financial and accounting systems and procedures, with emphasis upon the identification and use of valid audit trails and other management controls.

4. Designing and applying audit check lists for internal review of areas that are considered unique or critical to local command in the safeguarding of resources; for example, the areas of physical security, Automatic Data Processing security, or prevention/detection of theft or fraud involving government resources.

5. Reviewing safeguards or refinements to existing controls for material and financial accountability.

6. Randomly reviewing the proper execution of various directed programs such as cost reduction, financial reports generated by or for the activity, and physical inventory and reconciliation.

7. Participating in reviews of other problem areas, as directed.

8. Rendering advice on matters of organization and staffing within comptroller areas.

9. Maintaining liaison and providing assistance to auditors of the Naval Audit Service assigned to perform continuous, periodic, or integrated audits; providing similar liaison and assistance where appropriate to other audit or inspector representatives such as the General Accounting Office, Inspector General, command inspections, etc.

In summary, internal review is the determination of how funds which were allocated to the command are being spent. It is one way of checking that any legal restrictions placed on the use of funds are being observed. But equally important, it is an ongoing comparison of the actual performance of the command against the goals and objectives it has established in its budget. While each command is responsible for evaluating the effectiveness of its own programs, there are several external agencies which can assist in this effort. They are briefly discussed in the next section.

AUDITING SERVICES

In addition to the internal auditing and review staff of the command, there are several other agencies which conduct audits of Department of Defense activities. A brief description of each agency and one special service is provided below:

1. General Accounting Office (GAO)

The GAO is the principal agency that conducts external audits of the Department of Defense and the military departments thereof. It is an agency of the Congress and has broad authority to examine or review accounting, financial management, and other operations in the Executive Department. The purpose and scope of GAO audits and reviews are in many respects similar to audits conducted by an agency's internal auditors. Differences in the areas of responsibility are pointed out in the following passage from the GAO publication Internal Auditing in Federal Agencies:

> Although there are numerous areas of common interest between the General Accounting Office and an agency's internal auditors, certain basic objectives and responsibilities differ. Internal auditing is an integral part of an agency's systems of management control. In its audits, the General Accounting Office is concerned with the entire control mechanism within an agency, including the various arrangements made by the management for internal audits and other forms of inspection, appraisal and evaluation. If warranted by its evaluation..., the General Accounting Office will rely on such work and make full use of it in conducting its examinations.

2. Defense Contract Audit Agency

All contract audit functions are the responsibility of this agency whose director reports to the Secretary of Defense. Contract auditing involves the examination and evaluation of the records and operations of defense contractors. The contract auditor reviews contractors' systems,

controls and records. The auditor also provides advice and recommendations to procurement and contract administration personnel on the acceptability of the actual and estimated costs and on the adequacy of contractors' financial management systems and controls.

3. The Defense Audit Service

The Defense Audit Service is an agency of the Department of Defense under the direction, authority, and control of the Secretary of Defense. They will perform internal audits of the Office of the Secretary of Defense, the organization of the Joint Chief of Staff, the unified and specified commands, and the defense agencies. In addition, the Defense Audit Service performs quick-response audits on matters of special interest to the Secretary of Defense.

4. The Naval Audit Service (NAVAUDSVC)

Each of the military departments has a central audit organization to perform the function of internal audit. It is NAVAUDSVC policy to conduct audits of naval commands, programs and systems on a mission-oriented basis; that is, an audit concentrates on those areas of greatest interest or concern to the Navy and Marine Corps. The following functional area categories are indicative of the broad scope of naval audit effort:

Automatic Data Processing Systems
Communications
Financial Management
Intelligence and Security
Maintenance
Management Improvement Program
Manufacture
Military Assistance/International Logistics Programs

Nonappropriated Fund Activities
Personnel
Procurement
Property Management
Research, Development, Test and Evaluation
Supply Management
Support
Transportation

5. Management Consulting Services

Management consulting services offer a unique opportunity for a command to obtain free management advice. Requests for consulting services may be received directly by the Headquarters, NAVAUDSVC or by a regional office. A formal proposal will be prepared by the Management Consulting Division stating the study scope, objectives, timing, funding plans, intended report distribution, and other agreements. If this proposal is accepted by the requestor, it will form an agreement between the requestor and the NAVAUDSVC.

The requestor is free to accept, modify, or reject any conclusions drawn or recommendations made by the consultants. Utilization reports are not required and the implementation of specific recommendations is not subject to review in subsequent audits. Reports have limited distribution within NAVAUDSVC and distribution is not made outside NAVAUDSVC, unless of course, illegal actions are uncovered.

INTERNAL REVIEW FOLLOW-UP AND LIAISON

Follow-up on the implementation of internal review recommendations is vital if it is to be a viable tool of management. Follow-up action should also be taken on approved recommendations from audit agencies

external to the command. The following provides amplification of follow-up and liaison action:

1. Each approved audit or resource-related inspection recommendation requiring corrective action should be identified for subsequent follow-up.

2. The follow-up should determine the extent and effectiveness of corrective actions and be continued until all recommended actions are completed. Records should be maintained to document follow-up action.

3. The internal review function provides focal point responsibility and monitors all actions and command correspondence related to audits. It surveys resource-related reviews performed by agencies such as the General Accounting Office and the Naval Audit Service.

While the foregoing functions are essential, care should be exercised to insure that the internal review function does not become one where record keeping and monitoring subvert the primary purpose of reviewing command operations. Reviews should be formally reported in writing and follow-up performed. Line management must realize that the formalities are there to help not hurt.

CHAPTER VI

INDUSTRIAL FUNDS AND STOCK FUNDS

WORKING CAPITAL FUNDS

In 1949, when Congress amended the National Security Act of 1947 establishing the Department of Defense, the need to promote "efficiency and economy" through the use of uniform budgetary and fiscal procedures was recognized. Among the features of the National Security Act was authorization for the Secretary of Defense to establish working capital funds for the purpose of financing supply inventories and the capitalization of industrial type activities. Thus, what is known today as "stock funds" and "industrial funds" resulted from the National Security Act of 1947.

A fund is defined as a separate enterprise, having assets, liabilities, net worth, income and expenditures of its own. In commercial practice, a fund is a device to limit the area of attention by defining the activities or operations with which a particular management group and set of records are concerned. In government practice, a fund is not tied to profit making, hence, the emphasis is not on maximizing income. The fund was created to isolate a particular area and allow management to focus on it as a separate entity.

A working capital fund is a revolving fund used as a source of financing for work or services that ultimately will be paid for by the customer after completion of the job. The activity performing the work pays for

the costs incurred out of its working capital fund during job accomplishment. When the job is complete, the customer is billed and the fund is reimbursed. The goal of a DOD working capital fund is to recover all costs exactly, i.e., work to a zero profit.

In basic concept, a revolving fund commences operations with an initial funding by the Congress, which sets up a corpus, as it is called, representing initial capitalization. A Public Works Center represents a typical revolving-funded activity. Having received an initial funding, the Public Works Center would then take orders for work from Navy customers, do the work with dollars from the corpus of the revolving fund, bill the customers (from their appropriated money). The reimbursement would theoretically put the corpus of the revolving fund back where it started.

Since the purpose of this publication is to provide a basic foundation of knowledge, the ensuing discussion of the two main types of revolving funds which the line officer will come in contact with will only highlight the general uses for each. The most important point for the reader to remember is that these funds work on a break-even basis, that is, they try to generate just enough revenue (income) to offset expenditures (expenses) so as to be self-perpetuating. In contrast, the appropriated funds are used until they are depleted at which time they may or may not be refunded by an act of Congress.

THE NAVY INDUSTRIAL FUND (NIF)

The NIF is diverse and presently includes:

Shipyards
Naval Aircraft Rework Facilities (NARF)

Research Labs
Weapons Facilities
Public Works Centers
Naval Publication and Printing Stations (NPPS)
The Military Sealift Command
Polaris Missile Facilities
The Naval Avionics Center
The Naval Engineering Center

THE NAVY STOCK FUND (NSF)

The NSF, as it exists today, is best described as a revolving fund which finances a cycle of operations consisting of the purchase and sale of an inventory of supplies. The fund is administered by planning inventory levels of expense type items (traditionally an individual item priced below $1,000 as opposed to items above that price which are considered investment items) which will be required to support the shore establishment and the fleet. A projection is made of anticipated annual sales to all authorized customers and obligational authority is requested to replenish stocks to the required levels. The fund itself consists of two segments, cash and inventory, which collectively comprise the total capital held in the Navy Stock Account.

CHAPTER VII

FINANCIAL MANAGEMENT FOR OPERATING FORCES

INTRODUCTION

The previous chapters have presented an overview of financial management in broad and general terms. This chapter recaps and highlights some of the more important aspects of those chapters as they specifically apply to operational forces. Individual type commanders have slightly different procedures/regulations regarding the financial management of resources under their purview and it would be too complex to enumerate all the anomalies here. Instead, this chapter addresses general requirements and methods which are germane to all operating forces.

THE FLOW OF FUNDS TO OPERATING FORCES

The daily operating and maintenance expenses of a ship are funded in the Operating and Maintenance, Navy (O&MN) appropriation. The Chief of Naval Operations distributes these funds to the fleet commander who in turn allocates them to the type commanders as Expense Limitations. The type commanders then issue an Operating Budget to themselves from which individual ships are provided with funds in the form of operating targets (OPTARs). These are ususally promulgated in a message transmitted prior to the start of the fiscal year and contain quarterly targets. For example, a DD 963 class ship would receive $416,000 for the fiscal year in quarterly apportionments of $104,000 each. Type commanders establish

a relative funding level for a class of ship when it initially joins the force. Subsequent yearly funding is usually based on that amount plus an increase for inflation.

REPROGRAMMING

Once the size of the ship's OPTAR has been determined by the type commander, it becomes the CO's responsibility to utilize that OPTAR in an effective manner. Thus, type commanders require CO's to develop an annual financial plan which takes into account priorities and unfunded requirements. Through internal control and review, the CO's are expected to monitor their progress toward the goals established in the financial plans.

If a commanding officer cannot operate within the OPTAR even after local changes to the financial plan, two general types of reprogramming actions can be requested from the type commander. First, CO's may request an advance against a future quarterly apportionment. That is, they may ask that funds which would normally not be made available until some future date be made part of the current quarter's OPTAR. This action <u>does not increase the total amount</u> of funds to be made available for the whole fiscal year, but rather alters the flow throughout the year.

If the aforementioned action will not enable the CO to meet his financial requirements, an augmentation may be requested. An augmentation when approved raises the total OPTAR for the fiscal year. Thus, additional funds are provided. Augmentations require very specific justifications as specified by the individual type commanders.

LEGAL ASPECTS

Since the funds are passed to individual ships as OPTARS, the Section 3679 R.S. legal responsibility to ensure that obligations do not exceed the apportionment remains with the type commander. However, commanding officers are nonetheless administratively accountable to the type commander for any overcommitment or overobligation. Any such action will certainly make the CO's internal control and review procedures suspect.

In addition to apportioning funds on a quarterly basis, type commanders often utilize fencing restrictions to control the funds. One example is setting a floor (or minimum amount) on funds which must be spent for repair parts. Another is the placing of a top priority on certain items within a category such as medical needs in the consumable category. CO's are likewise administratively responsible for complying with these limitations.

OPTAR LOG

Naval Comptroller requirements dictate that each ship, aviation squadron and command must utilize an OPTAR Log (NAVCOMPT Form 2155) to record OPTAR grants and the value of transactions authorized and chargeable against the type commander's operating budget. The log is a running account in which requisitions for consumables, parts, etc. are deducted from the total OPTAR as they are expended and then the balance remaining is computed. A report of the status of the OPTAR is transmitted monthly by message to the appropriate Fleet Accounting and Disbursing Center with an information copy to the type commander.

ANNEX A

ZERO BASE BUDGETING
A PRIMER FOR THE NON-COMPTROLLER

by
Commander Alexander C. Crosby, SC, USN
and
Lieutenant Commander James C. Robertson, SC, USN

INTRODUCTION

On the coattails of the Congressional budgetary reform movement, and propelled by the urgings of a new President, the zero base approach to budgeting has swept across the management scene like a blitzkrieg. A scant three weeks after his inauguration, President Jimmy Carter, on 14 February 1977, issued a memorandum asking each executive department head to develop a zero base budgeting system for Fiscal Year 1979. What was this good, new system that the President wished incorporated into agency budget proposals prior to their submission to OMB less than nine months hence? Dr. Robert N. Anthony of the Harvard Business School and former Assistant Secretary of Defense (Comptroller) has expressed his opinion that the good parts of this system are not new, and that the new parts of it are not so good! Peter A. Pyhrr, the father of this new budget methodology has defined it as:

> "An operating, planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch, and shifts the burden of proof to each manager to justify why he should spend any money at all. This approach requires that all activities be identified in "decision packages" which will be evaluated by systematic analysis, and ranked in order of importance."

What follows in the next few pages is a brief discussion of the historical development of zero base budgeting, quick look at the mechanics of the process, some thoughts about its relationship to basic management processes, and a discussion of the Navy's efforts to implement such a budgeting methodology for its Fiscal Year 1979 submission.

Historical Background

In the face of a tightening budgetary climate in 1969, Mr. Peter A. Pyhrr, then Manager of Staff Control at Texas Instruments, developed an approach to budgeting whereby discretionary indirect costs (i.e. those where there really was a choice on how much, if any, to spend) had to be justified from the ground up. This zero base approach can be contrasted with the more traditional incremental approach in which current year expenditure levels are justified in terms of the change from the prior year's level. Publication of his ideas in the Harvard Business Review launched the newest managerial buzz word of the 1970's.[1] In 1971, then Governor Jimmy Carter hired Pyhrr to design and implement such a system for Georgia. After his ascendency to the office of the President, Carter cited the "success of the ZBB system adopted by the State of Georgia" in directing its implementation in the Federal budget.

In addition to the Presidential directive cited above, the introduction of the zero base approach into the Federal budgetary process can

[1] Pyhrr has expanded the cope of his ideas in his book, Zero Base Budgeting (John Wiley, New York, 1973). A later definitive book on the subject is Zero Base Budgeting Comes of Age by Logan M. Cheek, AMACON, New York, 1977.

be traced to two important Congressional actions. First, in 1976, Senator Muskie and 57 co-sponsors introduced a bill, The Government Economy and Spending Reform Act (S.2925), that would incorporate many of the basic tenets of zero base budgeting in the Federal government. The "Muskie Bill" (and a very similar one that had been introduced by Representative Blanchard and 109 co-sponsors in the House) was reintroduced in the Ninety-Fifth Congress in a significantly revised version after having died in committee in the Ninety-Fourth Congress.

The second Congressional action impacting upon the evolution of zero base budgeting in government occurred as the Senate Appropriations Committee reported out the Fiscal Year 1977 Department of Defense Appropriations Bill. Dissatisfied with a perceived inadequacy in the normal justification books which accompanied the traditional incremental budget, the Committee called for a strawman zero base submission of the Fiscal Year 1978 O&M(N) budget request to accompany and be crosswalked to the normal budget submission. The Navy soon found how formidable this task could be. What required 164 pages to discuss 35 different budget activities in the normal submission's justification books expanded to 1,306 pages in justifying 373 program packages in the zero base budget! Enough of history. What is the meat of this zero base budget system?

THE BASIC MODEL

Zero base budgeting is built around decision units and decision packages. A decision unit is any discrete activity for which a budget is prepared. It could be a program (for example Trident submarines or

Tomahawk missiles), an organizational entity, a function--the possibilities are almost endless. A decision package is nothing more than a brief budget justification document. It contains:

--A description of the stated goals and objectives of the decision unit.

--Alternative approaches for their attainment.

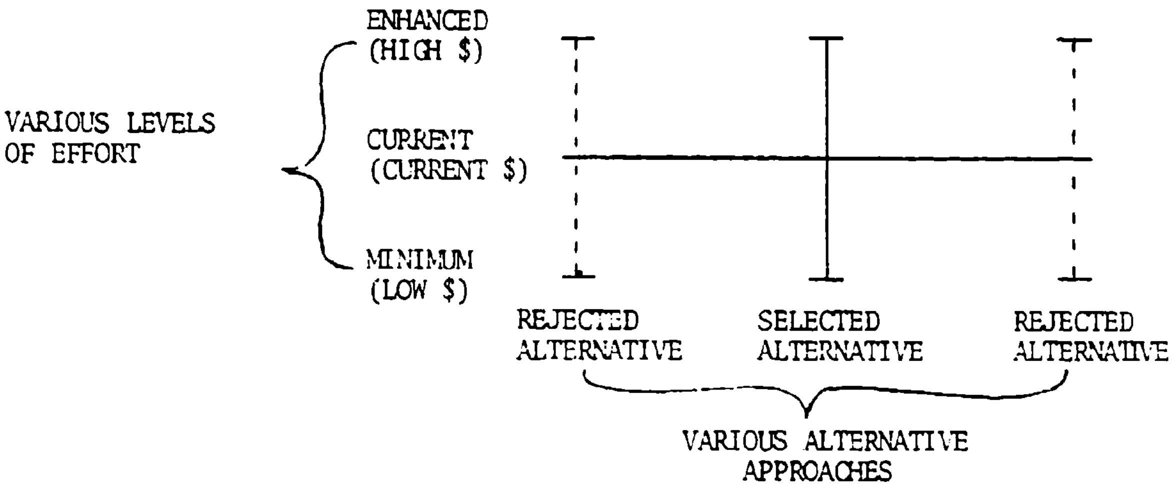
--A selection of the best alternative (based on either quantitative or qualitative factors).

--A justification of the costs involved.

--A statement of impact of not doing the particular function or activity.

In the process of building decision packages under the zero-base concept, a manager theoretically searches for alternative approaches to problem resolution or towards the attainment of the goals and objectives of the organization. Having determined feasible alternatives, the manager analyzes each in terms of quantitative and qualitative factors, and selects one approach that best enables reaching the desired objectives. In theory any alternative approach could be performed at a level of effort (and funding) such that the goals and objectives of the organization are just barely met. This is defined in zero base budgeting terminology as the minimum level of effort, below which it makes no sense to fund or perform the activity. Next, additional increments of effort needed to perform the function better than the minimum level are identified, along with explicitly identified costs and benefits. These increments, when added to the minimum level, produce various improved levels of effort, including the current level of effort (equal to present level of effort) and

an <u>enhanced level of effort</u> (the maximum level of effort, beyond which marginal costs exceed marginal benefits). These theoretical concepts on alternative choices and levels can be presented pictorially in the following diagram:



To illustrate this concept by example, imagine Department A, which is responsible for function X, at a small Naval activity. The department head analyzes the situation that he faces, maps out alternative courses of action to reach his objectives, selects the most advantageous alternative, and determines that with $50,000, he can just barely accomplish his goals. This is the minimum level at which he should be funded. However, with $70,000 he can attain performance equal to the prior year, and with $80,000, he could significantly improve or enhance his department's performance. These three levels of effort are expressed in zero base budget decision packages as follows:

DECISON PACKAGE	COST	CUMULATIVE BUDGET
1 of 3 (minimum)	$50,000	$50,000
2 of 3 (current)	20,000	70,000
3 of 3 (enhanced)	10,000	80,000

Alternative choices would also be described in the decision packages. The department head, in establishing his own budget priorities, places the minimum level of effort as his highest priority. In a shrinking funding position, this would be the last package decremented, or in an expanding climate, the first package restored to funding. Incorporating this very simple model for one department with other hypothetical departments at the small Naval activity presents the following situation, in which the Commanding Officer has ranked all packages from all of the departments in an activity-wide set of priorities.

DEPARTMENT	DECISION PACKAGE	COST	DEPARTMENTAL PRIORITY	CO's ACTIVITY-WIDE PRIORITY
A	1 of 3 (minimum)	$50,000	1	2
	2 of 3 (current)	20,000	2	3
	3 of 3 (enhanced)	10,000	3	8
B	1 of 2 (minimum)	$40,000	1	4
	2 of 2 (enhanced)	10,000	2	9
C	1 of 1 (minimum)	$10,000	1	5
D	1 of 3 (minimum)	$30,000	1	1
	2 of 3 (current)	10,000	2	6
	3 of 3 (enhanced)	20,000	3	7

Re-arrayed in rank sequence, the above table looks as follows:

RANK	PACKAGE	COST	CUMULATIVE COST
1	D1	$30,000	$ 30,000
2	A1	50,000	80,000
3	A2	20,000	100,000
4	B1	40,000	140,000
5	C1	10,000	150,000
6	D2	10,000	160,000
7	D3	20,000	180,000
8	A3	10,000	190,000
9	B2	10,000	200,000

The zero base approach for the small Naval activity then justifies from the ground up, and ranks in priority order, each level of effort by each department. When a local manager is faced with the reality of a budget control number imposed by the major claimant, the zero base budget model immediately shows which functions will be funded, and which will not. For example, if the small Naval activity is given a control number of $160,000, packages 1 through 6 will be funded, while D3, A3, and B2, the seventh, eighth and ninth items, remain unfunded. This approach for allocating limited resources to competing activities is conceptually superior to the approach of "cutting across the board" all activities on an equal basis. In this case, the funded $160,000 represents 80% of the activity's requirements. Comparing the two approaches illustrates the difference in results:

DEPARTMENT	ALLOCATION PER ZBB MODEL	ALLOCATION ON A CONSTANT PERCENTAGE CUT BASIS
A	$ 70,000	$ 64,000
B	40,000	40,000
C	10,000	8,000
D	40,000	48,000
	$160,000	$160,000

At this point, it is appropriate to emphasize that preparation and ranking of decision packages is only meaningful when costs over which the local manager exercises discretionary authority are being discussed. When costs are regulated or mandated by higher authority, or where no choice is really involved, decision packages serve no useful purpose, with the possible exception of identifying for the record segments of the budget which will be accomplished.

ZERO BASE BUDGETING'S RELATIONSHIP TO CLASSICAL MANAGEMENT PROCESSES

Perhaps one of the most important aspects of the zero base budget process and methodology emerges when thoughtful consideration is given to its relationship to managerial functions and processes. Most managers would agree that classical management embraces the following main tasks:

--Define goals and objectives (or problems) and define priorities.

--Determine alternative courses of action.

--Gather facts and opinions relevant to the alternatives, with costs and benefits, pros and cons, and key impact of each alternative identified clearly.

--Select the best or preferred alternative, and take action on it.

--Measure performance against the plan, and repeat the process above as necessary.

--Throughout the process, communicate well with all people materially affected by the potential action.

Certainly there are many more things that could be said about management tasks, but for the purposes of this article, the tasks defined can be accepted as those which capture the essence of the process. Analysis of these tasks on a comparative basis with zero base budgeting clearly demonstrates a one-to-one correspondence with each task in turn. Proceeding right down the list:

--Managers define goals and objectives to be satisfied through processes described in discrete decision packages, and they rank packages in priority order.

--Decision packages prepared by people actually doing the work are the vehicles to obtain documented alternatives.

--Each decision package must explicitly identify costs, benefits, and associated impact. Implicitly, facts and opinions are an integral part.

--Managers choose the best alternative from explicitly identified choices in decision packages.

--Budgeted costs for selected alternatives provide a baseline plan against which to measure performance, and periodic budget execution reviews compare actual performance against the plan. The decision package library provides an excellent starting point for repeating the decision making process in the event of a budget cut or resource windfall.

--Decision packages and the review of them provides a positive closed-loop communication mechanism for use in satisfying the need for adequate consideration by all concerned.

It is not difficult to see, upon consideration, that zero base budgeting processes are equally consistent with Management by Objectives, Management by Exception, and other defined management approaches. An option available to managers, then, is to integrate zero base budgeting mechanisms into their management actions as a regular part of the process. Zero base budget mechanisms can help managers to do the management process, and can lead to improvement in the process by virtue of more complete information and better communication.

THE NAVY'S IMPLEMENTATION FOR FISCAL YEAR 1979

From the foregoing, one could conclude that a textbook zero base budgeting system for the Navy on the macro level would require an enormous number of decision packages, far beyond the management ability of any manager. To cope with this seemingly insurmountable task, an approach has been developed where a large degree of aggregation of decision packages and decision units has been made, based principally on the present appropriation structure.

As promulgated in NAVCOMPTNOTE 7120 dated 20 July 1977, there are now 147 decision units specified for the Department of the Navy's Fiscal Year 1979 budget submission. These decision units are based on specific programs within the traditional appropriations (for example: Strategic Forces, Naval Forces, and Tactical Air Forces within O&MN; Trident and Nuclear Attack Subs within SCN; Tomahawk Missiles within WPN). The approach calls for seven levels (decision packages) of ranking increments from a decremented level (minimum level of effort) to an enhanced level. Between these two extremes is a "Basic" level, equivalent to a priced-out POM. Each of the seven budget levels above the minimum is roughly equal in total dollar amounts at approximately $800 million per level. The minimum budget "decremented" level in the Navy budget totals to $43.7 billion. The enhanced budget is $49.1 billion, and the basic (or POM level) is $47.7 billion.

The diagram offered in Figure #1 depicts, in a grossly oversimplified manner, the above described approach towards the macro level aggregation of decision units and decision packages which has enabled the implementation of zero base budgeting for the Department of the Navy's Fiscal Year 1979 budget submission. It should be noted that not every decision unit was incremented at each level of effort. Figure #2 shows how the seven decision package "levels" were crosswalked to the normal appropriation structure.

Clearly, this approach for constructing a zero base budget goes to great lengths to boil down a very complex system to aggregate values,

while still providing the executive decision maker (Secretary Brown or President Carter) with seven different, integrated and balanced levels of effort to choose between, each of which can be directly correlated to the Planning, Programming and Budgeting System (PPBS).

CONCLUSION

Dr. Anthony has stated publicly that "zero base budgeting is a fraud." What he meant by this comment in the 27 April 1977 WALL STREET JOURNAL was that zero base budgeting isn't really new, but rather that this approach could be used to push for the complete installation of program budgeting (as embodied in PPBS) throughout the government. He went on to say that experienced budget people should wade through the rhetoric and latch onto the concept as a way of accomplishing what really needs to be accomplished anyway--better allocation of scarce resources through better financial management.

Few would dispute the idea that the concepts applied in zero base budgeting represent those that should be used by any good manager. What, then, is new about zero base budgeting? From a management concept point of view, as strongly suggested by Dr. Anthony, not much is new. What *is* new is a methodology--a specific process or tool aimed at aiding managers to do better, or forcing them to do at all, what they should be doing anyway. It has certain advantages and disadvantages, just as any management process does. On the plus side, key advantages are:

-- Better information and identification of alternatives.

-- Involvement of managers at all levels, and better communication.

-- An organized methodology to handle the important and very complex job of resource allocation.

Key disadvantages are:

-- An increased volume of paperwork to support the budget effort.

-- Fear from subordinate managers that use of the process will result in cuts in funding.

-- Difficulty of implementing any new management process.

The reader is encouraged to expand the list of pro's and con's--the above is by no means exhaustive. Experience shows that implementation problems can be expected, but that genuine involvement of and planning by top management can alleviate the problems such that benefits outweigh problems. As in any budget process, zero base budgeting is subject to sabotage through decoy and deception tactics, and top management must be very astute indeed to cope with this problem.

The authors of this article perceive zero base budgeting to be another very useful tool in the managerial process that can help the manager/decision maker allocate limited resources in a more effective manner to enable attainment of organizational goals and objectives. This is the principal objective of the process. Indeed, zero base budgeting's objectives are precisely consistent with those of any good manager. Extensive use of the process by private industry and government at the national, state, and local levels attests to the worth of the process.

DECISION UNITS	#1	#2	#3	#4	#5	#6	#7	#8	#9	#10	145	#146	#147	TOTALS
ENHANCED LEVEL														$49,114 MIL
RANK 7		+		+	+	+	+	+		+	+		+	+ 691 MIL
RANK 6	+		+	+		+		+	+			+	+	+ 694 MIL
BASIC LEVEL														$47,729 MIL
RANK 5	+	+	+		+	+	+		+		+	+		+ 796 MIL
RANK 4	+		+		+		+	+	+		+	+	+	+ 831 MIL
RANK 3	+	+		+	+	+	+	+		+	+	+		+ 632 MIL
RANK 2		+	+	+	+		+	+	+		+		+	+ 1,011 MIL
RANK 1	+	+	+	+		+	+		+	+		+	+	+ 80 MIL
DECREMENTED LEVEL														$43,652 MIL

Figure 1. A SIMPLIFIED REPRESENTATION OF THE DEPARTMENT OF THE NAVY'S FISCAL YEAR 1979 BUDGET SUBMISSION.

Figure 2.

DEPARTMENT OF THE NAVY

FISCAL YEAR 1979 PROGRAM PRIORITY RANKING

(IN MILLIONS OF DOLLARS)

(TOTALS MAY NOT ADD DUE TO ROUNDING)

APPROPRIATION	DECREMENTED LEVEL	RANK 1	RANK 2	RANK 3	RANK 4	RANK 5	BASIC LEVEL	RANK 6	RANK 7	ENHANCED LEVEL
MPN	$ 8,281.3	7.5		1.8			$ 8,290.6	48.6	39.8	$ 8,379.1
MPMC	2,581.5	11.7					2,593.2	.9	10.9	2,605.0
RPN	236.7	1.8					238.5	71.6		310.1
RPMC	109.2	.4					109.6			109.6
O&MN	11,927.1	302.2	272.9	199.2			12,701.4	212.9	71.9	12,986.1
O&MMC	710.2	234.2	23.0	3.7			761.1	34.2		795.2
O&MNR	377.7	24.9		2.0			404.6	5.4	6.3	416.3
O&MMCR	17.8	1.7	.5				20.0	.6		20.6
APN	3,665.9	42.6	42.9	96.7	100.0	62.7	4,010.8	21.3	82.2	4,114.3
WPN	2,114.5	223.6	63.5	28.6	36.3	18.1	2,484.6	.3	166.5	2,651.4
SCN	6,148.6		318.5		486.5		6,953.6			6,953.6
OPN	2,558.2	119.8	86.1	47.2	16.9	32.3	2,860.5	84.3	97.0	3,041.8
PMC	346.5	24.3	26.9	4.4			402.1	23.5	49.9	475.5
RDT&E	4,078.7	22.0	42.4	86.9	56.9	539.6	4,826.6	190.5	166.7	5,183.8
MCN	498.0		134.4	117.9	114.6	142.8	1,007.6			1,007.6
MCNR				23.0			23.0			23.0
NSF				21.0	20.0		41.0			41.0
TOTAL	$43,651.9	806.7	1,011.1	632.4	831.2	795.5	$47,728.7	694.1	691.2	$49,113.9

ANNEX B

GLOSSARY

ACCOUNTS PAYABLE

Amounts due the public or other U.S. Government agencies for materials and services received, wages earned, and fringe benefits unpaid. May include amounts billed or billable under contracts for progress payments, earnings of contractors held back, or amounts due upon actual deliveries of goods and services.

ACCOUNTS RECEIVABLE

Amounts due from debtors on open account. Under appropriated funds, amounts due from debtors for reimbursements earned or for appropriation refunds due.

ACCRUAL ACCOUNTING

Accrual accounting recognizes in the books and records of account the significant and accountable aspects of financial transactions or events as they occur. Under this basis the accounting system provides a current systematic record of changes in assets, liabilities and sources of funds resulting from the incurrence of obligations and costs and expenses, the earning of revenues, the receipt and disbursement of cash, and other financial transactions.

ADMINISTERING OFFICE

The office, bureau, systems command, or Headquarters, U.S. Marine Corps assigned responsibility for budgeting, accounting, reporting and

controlling obligations and assigned expenditures for programs financed under appropriation(s) or subdivisions of an appropriation. The responsibility is assigned by the "Responsible Office."

ADMINISTRATIVE LIMITATION

A limitation imposed within an administrative agency upon the use of an appropriation or other fund having the same effect as a fund subdivision in the control of obligations and expenditures.

AGENCY

Any department, office, commission, authority, administration, board, Government-owned corporation, or other independent establishment of any branch of the Government of the United States.

ALLOCATION

An authorization by a designated official of a component of the Department of Defense making funds available within a prescribed amount to an operating agency for the purpose of making allotments; i.e., the first subdivision of an apportionment.

ALLOTMENT

The authority, expressed in terms of a specific amount of funds, granted by competent authority to commit, obligate and expend funds for a particular purpose. Obligation and expenditure of the funds may not exceed the amount specified in the allotment, and the purpose for which the authorization is made must be adhered to. Allotments are granted

for all appropriations except the operating accounts, such as O&M,N and RDT&E,N which use operating budgets. All allotments must be accounted for until the appropriation lapses or until all obligations are liquidated, whichever occurs first.

ANTI-DEFICIENCY ACT, SECTION 3679, REVISED STATUTES (31 U.S.C.665)

The salient features of this Act include :

1. Prohibitions against authorizing or incurring obligations or expenditures in excess of amounts apportioned by the Office of Management and Budget or in excess of amounts permitted by agency regulations.

2. Establishment of procedures for determining the responsibility for violations and for reporting violations to the President, through the Office of Management and Budget, and to the Congress.

3. Provisions for penalties that may include removal from office, a $5,000 fine, or imprisonment for two years.

4. Requirements for the apportionment of appropriations, funds or contract authority.

APPORTIONMENT

. A determination made by the Office of Management and Budget which limits the amount of obligations or expenditures which may be incurred during a specified time period. An apportionment may limit all obligations to be incurred for a specific activity, function, project, object, or a combination thereof.

APPROPRIATION

A part of an Appropriation Act providing a specified amount of funds to be used for designated purposes. Appropriations are divided into budget activities and further divided into subactivities, programs, projects, and elements of expense.

APPROPRIATION LIMITATION

A statutory limitation within an appropriation which cannot be exceeded by incurring obligations or expenditures.

ASSETS

Anything owned having monetary value. Property, both real and personal, including notes, accounts, and accrued earnings or revenues receivable; and cash or its equivalent.

AUDIT

The systematic examination of records and documents to determine (1) adequacy and effectiveness of budgeting, accounting, financial and related policies and procedures, (2) compliance with applicable statutes, regulations, policies, and prescribed procedures, (3) reliability, accuracy, and completeness of financial and administrative records and reports, and (4) the extent to which funds and other resources are properly protected and effectively used.

AUTHORIZATION ACCOUNTING ACTIVITY (AAA)

An activity designated by the Comptroller of the Navy to perform accounting for another shore activity.

BUDGET

A plan of operations for a fiscal period in terms of (a) estimated costs, obligations, and expenditures; (b) source of funds for financing including anticipated reimbursements and other resources; and (c) history and workload data for the projected programs and activities.

BUDGET AUTHORITY

Authority provided by law to enter into obligations which generally result in immediate or future outlays of Government funds. The basic forms of budget authority are: appropriations, contract authority, and borrowing authority.

BUDGET YEAR

The year following the current fiscal year, and for which the budget estimate is prepared. For example, if the current fiscal year is Fiscal Year 1980, the budget year would be Fiscal Year 1981.

CIVILIAN PERSONNEL CEILING

Maximum number of civilians which may be employed full-time as determined by appropriate authority. The full-time equivalent of part-time employment, expressed in man-months, is included in the ceiling.

COMMITMENT

A firm administrative reservation of funds based upon firm procurement directives, orders, requisitions, authorizations to issue travel orders, or requests which authorize the recipient to create obligations

without further recourse to the official responsible for certifying the availability of funds. The act of entering into a commitment is usually the first step in the process of spending available funds. The effect of entering into a commitment and the recording of that commitment on the records of the allotment is to reserve funds for future obligations. A commitment is subject to cancellation by the approving authority if it is not already obligated. Commitments are not required under O&M appropriations.

CONGRESSIONAL BUDGET

The budget as set forth by Congress in a concurrent resolution on the budget. These resolutions shall include:

1. The appropriate level of total budget outlays and total new budget authority.

2. An estimate of budget outlays and new budget authority for each major functional category, for contingencies, and for other categories.

3. The amount of the surplus or deficit in the budget (if any).

4. The recommended level of Federal revenues.

5. The appropriate level of the public debt.

CONTINUING RESOLUTION

Congressional action to provide budget authority for specific ongoing activities when the regular fiscal year Appropriation Act has not been enacted by the beginning of the fiscal year. The continuing resolution usually specifies a maximum rate at which the agency may incur obligations and is sometimes based on the rate of spending of the prior year.

COST ACCOUNT

Accounts established to classify transactions by cost, according to the purpose of the transactions. Cost account codes are used to identify uniformly the contents of management reports.

COST-BASED BUDGET

A budget based on the cost of goods and services actually to be received during a given period whether paid for before the end of the period or not. Not to be confused with an expenditure-based budget, which is based on the cost of goods and services received and actually paid for.

COST CENTER

A cost center is a subdivision of a field activity or a responsibility center. An individual cost center is a group of homogeneous service functions, processes, machines, product lines, professional and/or technical skills, etc. It is an organizational entity for which identification of costs is desired and which is amenable to cost control through one responsible supervisor such as a department head.

CROSS-SERVICING

That function performed by one military service in support of another military service for which reimbursement is required from the service receiving support.

CURRENT YEAR

The fiscal year in progress. (See also "BUDGET YEAR")

DECISION UNIT

A program or organizational entity upon which a manager makes significant resource allocation decisions.

DECISION PACKAGE

A document containing justification for funding a decision unit at various levels.

DEPARTMENT OF THE NAVY FIVE-YEAR PROGRAM (DNFYP)

The Navy's official programming document, this publication consists of volumes or booklets and displays the Navy's portion of the Five-Year Defense Program (FYDP). SECDEF approved forces, manpower and financial data are given for each Navy Program Element for the current, budget and program years.

DIRECT COSTS

Direct costs are costs incurred directly for and are readily identifiable to specific work or work assignments.

DISBURSEMENTS

In budgetary usage, gross disbursements represent the amount of checks issued, cash, or other payments made less refunds received. Net disbursements represent gross disbursements less income collected and credited to the appropriation or fund account, such as amounts received for goods and services provided. (See also "OUTLAYS")

DOD PLANNING/PROGRAMMING/BUDGETING SYSTEM (PPBS)

An integrated system for the establishment, maintenance, and revision of the FYDP and the DOD budget.

ECONOMY ACT ORDER

An order executed for materials, work or services to be furnished by one activity for another under the authority and limitations of the Economy Act (31 U.S.C.686).

EXPENDITURE

A charge against available funds. It is evidenced by voucher, claim, or other document approved by competent authority. Expenditure represents the actual payment of funds.

EXPENSES

Costs of operation and maintenance of activities on the accural basis over time, as distinguished from costs of acquisition of property. Expenses include but are not limited to the cost of: (1) civilian personnel services; (2) military personnel services; (3) supplies and material consumed or applied, (4) travel and transportation of personnel; (5) rental of facilities and equipment; (6) equipment (having a unit value of less than $1,000) and (7) services received (purchased utilities, leased communications, printing and reproduction, and other). The cost of minor construction of a value of $75,000 or less is included as an expense.

EXPENSE ELEMENT

An expense element identifies the type of resource being consumed in the functional/subfunctional category or program element. These are listed and defined by DOD Directive.

EXPIRED APPROPRIATION

An appropriation which is no longer available for obligation but is still available for disbursement to liquidate existing obligations.

EXECUTION

The operation of carrying out a program as contained in the approved budget. Often referred to as "Budget Execution."

FISCAL YEAR

Accounting period beginning 1 October and ending 30 September of the following year. The fiscal year is designated by the calendar year in which it ends. Fiscal Year 1981 begins on 1 October 1980 and ends 30 September 1981.

FIVE YEAR DEFENSE PROGRAM (FYDP)

The Five-Year Defense Program summarizes all approved programs of the entire Department of Defense. Resources or inputs required for five years are combined with military outputs or programs for the same period. The FYDP is expressed in terms of programs, program elements, and resource categories.

1. Mission Operations
2. Administration
3. Supply Operations
4. Maintenance of Material
5. Property Disposal
6. Medical Operations
7. Base Services
8. Maintenance of Real Property
9. Utility Operations
10. Other Engineering Support
11. Minor Construction
12. Personal Support

Subfunctional categories are a finer grouping within the functional category grouping. They are used to accumulate expenses separately for various functions encompassed by a single functional category.

FUND AVAILABILITY

The amount of obligational authority in a fund or fund subdivision.

FUND SUBDIVISION

A segment of an appropriation or other fund, created by funding action as an administrative means of controlling obligations and expenditures within an agency.

GENERAL EXPENSES

Costs incurred by general cost centers which are not incurred for and are not readily identifiable with specific direct job orders and which are not included in the indirect expense of the direct cost centers.

GENERAL LEDGER

The general ledger is the book of accounts in which all accounting entries are ultimately summarized. It is maintained by an Authorization Accounting Activity for each Operating Budget holder. It is designed so that summary reports of all financial transactions can be readily prepared for management.

IMPREST FUND

Fixed amount of cash used to make minor expenditures for local commercial purposes. Payments from the fund are reimbursed from time to time to maintain a fixed amount in the fund.

INDIRECT EXPENSE

Indirect expenses are costs incurred by direct cost centers which are not incurred directly for and are not readily identifiable with specific job orders established for the accomplishment of assigned work.

INDUSTRIAL FUND

A revolving fund established at industrial type activities where products or services are provided external users. The purpose of the fund is to provide a more effective means of controlling costs; establish a flexible means for financing, budgeting and accounting; encourage the creation of buyer-seller relationships; place budgeting and accounting on a more commercial basis; and encourage cross-servicing between military departments. Charges to the fund are made for procurement of materials, services and labor and the fund is reimbursed by proceeds from the sale of products and services.

INTERNAL AUDIT

The independent appraisal activity within an organization for the review of the accounting, financial and related operations as a basis for protective and constructive services to management.

INTERNAL CONTROL

Internal review and internal checks established by the commanding officer to safeguard property and funds; to check accuracy, reliability and timeliness of accounting data; to promote operational efficiency; and to ensure adherence to prescribed management policies and procedures.

INVESTMENTS

The costs associated with the acquisition of equipment costing more than $1,000 per unit, and expected to benefit more than one project. Items of equipment procured for the purpose of a specific project are excluded regardless of acquisition costs.

JOB ORDER

1. A formal instruction to perform certain work according to specifications, estimates, etc.

2. Descriptive of a cost system whereby costs are accumulated by job orders.

LAPSED FUNDS

Expired appropriations lapse two years after expiration and unpaid obligations are transferred to the "M" account for each appropriation where they are merged with unpaid obligations of all other lapsed appropriations for the same general purpose. The total unobligated balances previously withdrawn at the time of expiration from all lapsed appropriations for the same general purpose remain available for restoration to the designated "M" account as required to cover bona-fide obligation adjustments.

LIABILITIES

Amounts of money owed to others for goods and services received, or for assets acquired. Liabilities include accrued amounts earned but not yet due for payment, and progress payments due to contractors.

MAJOR CLAIMANT/SUBCLAIMANT

A major claimant is a bureau/office/command/Headquarters, Marine Corps which is designated as an administering office under the Operation and Maintenance appropriations in NAVCOMPT Manual, Volume 2, Chapter 2. Navy major claimants receive operating budgets directly from the Chief of Naval Operations Fiscal Management Division (OP-92). Subclaimants are bureaus/offices/commands designated as administering offices which receive a subclaimant operating budget from a major claimant.

MEMORANDUM ACCOUNT

An account, usually stated in financial terms, but not always a part of the basic double-entry system of accounts, used for obtaining data required for control, reporting, or other purposes.

NAVY COST INFORMATION SYSTEM (NCIS)

Essentially a data bank, designed to provide and display Navy program and cost information in a variety of reports expressed in either appropriation structure or DOD programming structure, using computerized automatic data processing. The basic data unit used in the NCIS as a building block to assemble information in the desired format is the Unit Identification Code (UIC). Each UIC is an activity, command, ship, station or

unit which appears as an entity in the Programming System. Each UIC then contains a cost and manpower entity and is assigned a code number for automatic data processing.

NEW OBLIGATIONAL AUTHORITY (NOA)

Authority to incur obligations becoming newly available for a given year, authorized by current and prior actions of the Congress.

NONAPPROPRIATED FUNDS

Moneys derived from sources other than Congressional Appropriations, primarily from the sale of goods and services to DOD military and civilian personnel and their dependents and used to support or provide essential morale, welfare, recreational, and certain religious and education programs. Another distinguishing characteristic of these funds is the fact that there is no accountability for them in the fiscal records of the Treasury of the United States.

OBLIGATIONAL AUTHORITY

1. An authorization by Act of Congress to procure goods and services within a specified amount by appropriation or other authorization.

2. The administrative extension of such authority, as by apportionment or funding.

3. The amount of authority so granted.

OBLIGATION

A duty to make a future payment of money. The duty is incurred as soon as an order is placed, or a contract is awarded for the delivery of

goods and the performance of services. It is not necessary that goods actually be delivered, or services actually be performed, before the obligation is created; neither is it necessary that a bill, or invoice, be received first The placement of an order is sufficient. An obligation legally encumbers a specified sum of money which will require outlay(s) or expenditure(s) in the future.

OPERATING BUDGET (OPBUD) (OB)

An operating budget is the annual budget of an activity stated in terms of Budget Classification Code, functional/subfunctional categories and cost accounts. It contains estimates of the total value of resources required for the performance of the mission including reimbursable work or services for others. It also includes estimates of workload in terms of total work units identified by cost accounts.

ORDERING ACTIVITY

An activity which originates a requisition or order for procurement, production, or performance of work or services by another activity.

OUTLAYS

Checks issued, interest accrued on the public debt, or other payments, net of refunds and reimbursements. Total budget outlays consist of the sum of the outlays from appropriations and funds in the budget, less receipts.

PERFORMANCE BUDGET

A budget which focuses attention upon the general character and relative importance of the work to be done by taking as its basis the estimated costs of programs, functions, and projects designed to accomplish mission. For example, the cost of a function; that is, operating a rifle range, communications centers, motor pool, etc; versus the cost of "things"; that is, supplies, equipment, personnel services, etc.

PERFORMING ACTIVITY

An activity which is responsible for performing a function or service, including production of material and/or procurement of goods and services from other contractors and activities.

PLANNING ESTIMATE/OPERATING TARGET (OPTAR) HOLDER

A planning estimate/OPTAR Holder is a person granted administrative control of a designated amount of funds. Planning Estimates/OPTAR's are issued by OB Holders to subordinates or to designated activities who are not included in any responsibility center.

PLANNING, PROGRAMMING AND BUDGETING SYSTEM (PPBS)

A comprehensive system which provides the basis for standardized planning and programming for all the armed services. It converts planning objectives into resource requirements.

PRESIDENT'S BUDGET

The budget for a particular fiscal year transmitted to the Congress by the President in accordance with the Budget and Accounting Act of 1921, as amended.

PROGRAM COST CATEGORIES

1. Research and Development

Those program costs primarily associated with Research and Development efforts including the development of a new or improved capability to the point where it is ready for operational use. These costs include equipment costs funded under the RDT&E appropriations and related Military Construction appropriation costs. They exclude costs which appear in the Military Personnel, Operation and Maintenance, and Procurement appropriations.

2. Investment

Those program costs required beyond the development phase to introduce into operational use a new capability, to procure initial, additional or replacement equipment for operational forces or to provide for major modifications of an existing capability. They include Procurement and Military Construction appropriation costs, and exclude RDT&E, Military Personnel, and Operation and Maintenance appropriation costs.

3. Operating

Those program costs necessary to operate and maintain the capability. These costs include Military Personnel, and Operations and Maintenance.

PROGRAM ELEMENT

Major programs are subdivided into Program Elements. The program element is the basic building block of the FYDP. It is defined as "an integrated combination of men, equipment and facilities which together constitute an identifiable military capability or support activity."

It identifies the mission to be undertaken and the organizational entities to perform the mission. Elements may consist of forces, manpower, materials, services, and/or associated costs as applicable.

PROGRAM OBJECTIVES MEMORANDUM (POM)

A memorandum in prescribed format submitted to the Secretary of Defense by the Secretary of a Military Department or the Director of a Defense Agency which recommends the total resource requirements within the parameters of the Secretary of Defense's fiscal guidance.

PROJECT

A planned undertaking having a finite beginning and ending, involving definition, development, production, and logistic support of a major weapon or weapon support system or systems. A project may be the whole or a part of a program. Within the Naval Material Command, a Designated Project is a project which, because of its importance or critical nature, has been selected for intensified project management.

PROJECT MANAGER

The individual within the NMC, Bureaus, and Offices responsible, within well-defined boundaries of time, resources, and performance requirements, for executing an approved project.

PROJECT ORDER

A specific, definite, and certain order between Navy activities, for work or for the manufacture of supplies, material, or equipment which, for the purpose of obligation, assumes the characteristics of orders or contracts placed with commercial enterprises.

REAPPORTIONMENT

A revision of an annual "apportionment" during the fiscal year, either upwards or downwards.

RECEIVABLES

A collective term used to describe amounts due to or to become due from others, usually within a relatively short time.

RECISSION

A legislative action which cancels budget authority previously provided by Congress.

REIMBURSABLE EXPENDITURE

An expenditure made for another agency, fund, or appropriation, or for a private individual, firm or corporation, which subsequently will be recovered.

REIMBURSEMENTS

Amounts received by an activity for the cost of material, work, or services furnished to others for credit to an appropriation or other fund account.

REPROGRAMMING

The transfer of funds between programs of an appropriation; a shifting of funds from the original purpose for which they were justified by Congress.

RESOURCES

Resources consist of military and civilian personnel, material on hand and on order, and the entitlement to procure or use material, utilities, and services.

RESPONSIBLE OFFICE

The office, bureau, systems command, or Headquarters, U.S. Marine Corps which has been assigned the responsibility for overall management for all programs financed by an appropriation. The Director, CNO Fiscal Management Division (OP-92) is the responsible office for all Navy appropriations, except RDT&E. The Headquarters, U.S. Marine Corps is the responsible office for all Marine Corps appropriations. The Assistant Secretary of the Navy (Research, Engineering and Systems) is responsible for RDT&E. (See "ADMINISTERING OFFICE")

RESPONSIBILITY CENTER

The Department of Defense definition of a responsibility center is "an organization unit headed by an officer or supervisor who is responsible for the management of resources in the unit, and who in most instances can significantly influence the expenses incurred in the unit." The Navy application of the DOD definition is that a responsibility center, as used in the Department of the Navy, is normally an activity listed in the Standard Navy Distribution List. However, there are situations where it may be either necessary or desirable to establish more than one responsibility center in an activity or to combine several activities into one responsibility center. Commandants of Naval Districts will normally have at

least two responsibility centers - one for the Headquarters operations and one for the operation of the Naval reserve centers. Several activities would be combined in one responsibility center when the individual activities are considered small enough to justify the combination or when operational requirements make the combination necessary.

REVOLVING FUND

A fund established to finance a cycle of operations to which reimbursements and collections are returned for reuse in a manner that will maintain the principal of the fund; e.g., "working capital funds," "industrial fund."

STORES ACCOUNT

An account reflecting the cost and/or the quantity of supplies on hand and available for issue.

SUBHEAD

A four digit numerical or alpha-numeric number identifying the first level subdivision of an appropriation used primarily for administration, accounting, and control of an appropriation.

SUPPLEMENTAL APPROPRIATION

An appropriation enacted as an addition to a regular appropriation act. Supplemental appropriations provide additional budget authority beyond original estimates for programs or activities which are too urgent to be postponed until the next regular appropriation.

TOTAL OBLIGATIONAL AUTHORITY (TOA)

TOA is the total amount of funds available for programming in a given year, regardless of the year the funds are appropriated, obligated or expended. TOA includes new obligational authority, unprogrammed or reprogrammed obligational authority from prior years, reimbursements not used for replacement of inventory in kind, advance funding for programs to be financed in the future, and unobligated balances transferred from other appropriations.

UNDELIVERED ORDERS

An undelivered order is any document, meeting the criteria of an obligation, issued for material or services that has not as yet been received by the activity that ordered it. Includes material requisitions applicable to reimbursable orders issued for material to be delivered from a stock funded inventory, and purchase orders issued which cite annual appropriations, and overhead materials requisitions issued by modified industrial activities whose operations are principally financed by reimbursable orders.

UNFILLED ORDER

An unfilled order is any document issued for goods or services, which meets the criteria of an obligation, yet has not been received.

VOUCHER

Any document which is evidence of a transaction, showing the nature and amount of the transaction. It usually indicates the accounts in which the transaction is to be recorded.

WARRANT

An official document issued by the Secretary of the Treasury and countersigned by the Comptroller General of the United States by which monies are authorized to be withdrawn from the Treasury. Warrants are issued after appropriations and similar congressional authority have been enacted.

WORK MEASUREMENT

The process of establishing performance standards in terms of hours per work unit. Some of the principal techniques used are: stopwatch observations, synthesis of predetermined standards; work sampling; and statistical inference from historical data. The principal purpose of the standards is to compare the work performed with the manhours expended. Such information may be used for personnel planning, work scheduling, budget justification and cost control.

WORK UNIT

Work units are measures of output that express volume of work; conversely, manhours and dollars are measures of input required to produce work units or perform work.

ZERO-BASE BUDGETING (ZBB)

A systematic process in which management undertakes careful examination of the basis for allocating resources in conjunction with the formulation of budget requests and program planning.

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